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## ISSUING DOCUMENT

### AXA IM NOVALTO

a mutual investment fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

JUNE 2023

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Subscriptions of units (the **Units**) in AXA IM NOVALTO (the **Fund**) can only be accepted on the basis of this Issuing Document (the **Issuing Document**) accompanied by the latest annual report. Such report forms an integral part of the Issuing Document.

No information other than that contained in the Issuing Document, in the periodic financial reports or in any other document mentioned in the Issuing Document may be given in connection with this offer.

Prospective investors are not to construe the contents of the Issuing Document as legal or tax advice. The Fund has not engaged any legal or other advisors to represent investors. Each prospective investor should consult its own advisors as to legal, tax and related matters concerning an investment in the Fund. Recipients of the Issuing Document should note that there may have been changes in the affairs of the Fund since the date hereof.

### **IMPORTANT INFORMATION**

An investment in the Fund involves significant risks. Investors should read the Issuing Document in its entirety and should consider the risks described in the Issuing Document and the specific risks of the relevant Sub-fund before investing in the Fund. Investors must rely on their own examination of the Fund and the terms of offering contemplated hereby, including the risks and merits involved. Investors should also seek independent legal, financial, tax and other advice in considering the Issuing Document and an investment in the Fund. The Units have not been recommended by any securities commission or regulatory authority of any state or country. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the Issuing Document.

No person has been authorised to give any information or to make any representations, other than those contained in the Issuing Document and in the documents referred to herein, in connection with the offer hereby made, and, if given or made, such information or representation must not be relied upon if not authorised by the Management Company or the AIFM (as defined herein).

### **Capacity of Management Company**

Unless the context otherwise requires in the Issuing Document, any reference to an action of the Management Company means an action of the Management Company acting in its own name but on behalf of the Fund and any reference to an action on behalf of the Fund, means an action on behalf of a specific Sub-fund only, unless stated otherwise.

### **Restrictions of ownership of Units**

The Management Company reserves the right to:

- (i) refuse on a discretionary basis all or part of a subscription application for Units;
- (ii) redeem, at any time, Units held by investors not authorised to buy or own the Units and return the proceeds to such investors as set forth in the Fund Documents.

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## Well-Informed Investors

The issue, holding and sale of Units is restricted to investors, which qualify as “Well-Informed Investors” as per article 2 of the law dated 13 February 2007 relating to specialised investment funds (the **SIF Law**) qualifying as “Professional Clients” within the meaning of Annex II of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (each an **Investor**). Units cannot, whether directly or indirectly, be subscribed by, sold to or otherwise granted to retail clients within the meaning ascribed under Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU. As a consequence, no key information document in accordance with Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products shall be issued.

Qualification of being a Well-Informed Investor is applicable to each institutional investor, professional investor or any other investor who:

- (a) has confirmed in writing that he adheres to the status of well-informed investor; and
- (b)
  - (i) he invests a minimum of €125,000 in the Fund; or
  - (ii) he has obtained an assessment made by:
    - a credit institution within the meaning of Directive 2006/48/EC;
    - an investment firm within the meaning of Directive 2004/39/EC; or
    - a management company within the meaning of Directive 2009/65/EC, certifying his expertise, his experience and his knowledge in adequately appraising an investment in specialised investment funds.

Furthermore, the Management Company will not give its approval and/or co-operate to any transfer of Units that would result in a non-qualifying Investor becoming an Investor of the Fund. The Management Company, at its full discretion, will refuse the issue or transfer of Units, if there is not sufficient evidence that the person to whom the Units are sold or transferred to is an Investor.

Considering the qualification of a subscriber or a transferee as Investor, the Management Company will have due regard to the applicable laws and regulations or recommendations (if any) of the *Commission de Surveillance du Secteur Financier* (the **CSSF**).

## RESTRICTIONS ON SOLICITATIONS AND RESALE

Subscription for Units in the Fund may only be effected on the basis of the Issuing Document, the management regulations of the Fund (the **Management Regulations** and together with the **Issuing Document**, the **Fund Documents**) and each Investor's Subscription Form (as defined below) in their final version.

The Issuing Document does not constitute an offer to sell to, or a solicitation of an offer to subscribe from, anyone in any country or jurisdiction (i) in which such an offer or solicitation is not authorised, (ii) in which any person making such offer or solicitation is not qualified to do so or (iii)

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in which any such offer or solicitation would otherwise be unlawful. No action has been taken that would, or is intended to, permit a public offer of Units in the Fund in any country or jurisdiction where any such action for that purpose is required. Accordingly, Units may not be offered or sold, directly or indirectly, and neither the Issuing Document nor any other information, form of application, advertisement or other document may be distributed or published in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession the Issuing Document comes must inform themselves about and observe any legal restrictions affecting any subscription of Units in the Fund. The Management Company or the AIFM does not make any representation or warranty to any prospective investor regarding the legality of an investment in the Fund by such person under appropriate securities or similar laws.

None of the Units have been or will be registered under the United States Securities Act of 1933, as amended (the **1933 Act**) or registered or qualified under applicable state statutes and (except in a transaction which is exempt from registration under the 1933 Act and such applicable state statutes) none of the Units may be offered or sold, directly or indirectly, in the United States of America or in any of its territories or possessions (the **United States**), or to any US Person (as defined herein) regardless of location. In addition, the Fund has not been and will not be registered under the United States Investment Company Act of 1940, as amended (the **1940 Act**) and Investors will not be entitled to the benefit of the 1940 Act. Based on interpretations of the 1940 Act by the staff of the United States Securities and Exchange Commission relating to foreign investment entities, if the Fund has more than 100 beneficial owners of its Units who are US Persons, it may become subject to the 1940 Act.

The Management Company or the AIFM will not knowingly offer or sell Units to any Investor to whom such offer or sale would be unlawful, or might result in the Fund incurring any liability to taxation or suffering any other pecuniary disadvantages which the Fund might not otherwise incur or suffer or would result in the Fund being required to register under the 1940 Act. Units may not be held by any Person (as defined herein) in breach of the law or requirements of any country or governmental authority including, without limitation, exchange control regulations. Each Investor must represent and warrant to the Fund that, amongst other things, he is able to acquire Units without violating applicable laws. Power is reserved in the Management Regulations of the Fund, to compulsorily redeem any Units held directly or beneficially in contravention of these prohibitions.

The Management Company and the AIFM accepts responsibility for the information contained in the Issuing Document. To the best knowledge and belief of the Management Company and the AIFM (which have taken all reasonable care to ensure that such is the case), the information in the Issuing Document does not omit anything likely to affect the importance of the information.

Statements made in the Issuing Document, except where otherwise stated, are based on the laws and practices currently in force in Luxembourg and are subject to changes therein.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The Issuing Document contains forward-looking statements, which provide current expectations or forecasts of future events. Words such as “may,” “believes,” “expects,” “plans,” “future” and “intends”, and similar expressions, may identify forward-looking statements, but the absence of

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these words does not mean that the statement is not forward-looking. Forward-looking statements include statements about the Fund's plans, objectives, expectations and intentions and other statements that are not historical facts. Forward-looking statements are subject to known and unknown risks and uncertainties and inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Potential Investors should not unduly rely on these forward-looking statements, which apply only as of the date of the Issuing Document.

## **DATA PROTECTION POLICY**

In accordance with the provisions of any applicable national data protection laws (including but not limited to the Luxembourg law of 1st August 2018 organizing the National Commission for data protection and the general system on data protection, as may be amended or replaced), together with the Regulation n°2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of person data and on the free movement of such data (the **GDPR**) (collectively hereinafter the **Data Protection Laws**), the Management Company, acting as data controller on behalf of the Fund (the **Data Controller**), has to inform the Investors and/or prospective Investors about the processing of their personal data.

The Data Controller collects, stores and processes by electronic or other means the data supplied by Investors and/or prospective Investors (or, if the Investor or prospective Investor is a legal person, any natural person related to it such as its contact person(s), employee(s), trustee(s), nominee(s), agent(s), representative(s) and/or beneficial owner(s)) (the **Data Subjects**) at the time of their subscription for the purposes outlined below.

The data processed includes the name, age, address (e-mail and postal), gender, phone number, fax number, account numbers, date of birth, nationality, citizenship, profession, identity number/social security number, passport number, identity card with photo, proof of address, tax identifiers, tax status, tax certificates, source of wealth, source of funds, bank account data, IBAN and BIC codes, PEP status, sanctions status, income, related parties, power of attorney status, client communications and any information regarding the dealing in shares (subscription, conversion, redemption and transfer) and invested amount of each Investor (the **Personal Data**). As part of its compliance with legal obligations such as AML/KYC, the Data Controller may be required to process special categories of Personal Data as defined by the GDPR, including Personal Data relating to political opinions as well as criminal convictions and offences. Personal data relating to political opinions of Data Subjects having a public political exposure will be processed by the Data Controller on the basis of article 9, (2), e) (i.e. the personal data have manifestly been made public by the data subject).

The Data Subjects may, at their discretion, refuse to communicate the Personal Data to the Data Controller or its delegates. In this case however the Data Controller may reject his/her/its request for subscription of Units in the Fund, if the relevant Personal Data are necessary for such subscription.

Investors and/or prospective Investors who are legal persons undertake and guarantee to process Personal Data and to supply such Personal Data to the Data Controller in compliance with the Data Protection Laws, including, where appropriate, informing the relevant Data Subjects of the contents of the present section, in accordance with Articles 12, 13 and/or 14 of the GDPR.

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Personal Data supplied by Data Subjects are processed in order to enter into and execute the subscription in the Fund (i.e. to perform any pre-contractual measures as well as the contract entered into by the Data Subjects), for the legitimate interests of the Data Controller and to comply with the legal obligations imposed on the Data Controller.

In particular, the Personal Data supplied by Investors is processed for the purpose of (i) maintaining the register of Investors, (ii) processing subscriptions, redemptions and conversions of Units and payments of dividends to Investors, (iii) complying with applicable anti-money laundering rules and any other legal obligations, such as performing controls on late trading and market timing practices, CRS/FATCA obligations or mandatory registrations with registers including among other the Luxembourg register of beneficial owners, (iv) account administration, (v) client relationship management and (vi) commercial prospection. In that respect, the Data Subjects acknowledge their right to object to the processing of personal data for marketing purposes by writing to the Data Controller.

The “legitimate interests” of the Data Controller referred to above are:

- (a) the processing purposes described in points (v) and (vi) of the above paragraph of this clause;
- (b) the provision of the proof, in the event of a dispute, of a transaction or any commercial communication as well as in connection with any proposed purchase, merger or acquisition of any part of the Fund's business;
- (c) compliance with foreign laws and regulations and/or any order of a foreign court, government, supervisory, regulatory or tax authority;
- (d) risk management;
- (e) processing Personal Data of employees or other representatives of investors and/or prospective investors which are legal persons; and
- (f) exercising the business of the Fund in accordance with reasonable market standards.

The Personal Data may also be processed by the Data Controller's data recipients (the **Recipients**) which, in the context of the above mentioned purposes, refer, including but not limited to the Administrative Agent, the registrar agent, the AIFM, the Depositary, the Transfer Agent, the auditor, the legal advisor(s), any third party that acquires, or is interested in acquiring or securitizing, all or part of the Fund's assets or shares, or that succeeds to it in carrying on all or a part of its businesses, or services provided to it, whether by merger, acquisition, reorganization or otherwise as well as any other third party supporting the activities of the Data Controller. The Recipients may, under their own responsibility, disclose the Personal Data to their agents and/or delegates (the **Sub-Recipients**), which shall process the Personal Data for the sole purposes of assisting the Recipients in providing their services to the Data Controller and/or assisting the Recipients in fulfilling their own legal obligations.

The Recipients are located in the European Economic Area (**EEA**).

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The Sub-Recipients may be located either in the EEA or in countries outside of the EEA and whose data protection laws may not offer an adequate level of protection, in particular but not exclusively in India. Such Sub-Recipients shall process the Personal Data under the same conditions and for the same purposes as the Recipients. The Data Subject may contact the Data Controller for more information regarding the transfer of its Personal Data performed by such Recipients. Where data transfers outside of the EEA take place, the Data Controller or one of its delegates has taken the necessary steps to ensure that appropriate safeguards have been put in place by the relevant Recipients to protect the privacy and integrity of such personal data, in particular the implementation of the European Commission approved model clauses or any other appropriate safeguards pursuant to the GDPR, as well as, if necessary, supplementary measures. In this respect, the Data Subjects have a right to request copies of the relevant document for enabling the Personal Data transfer(s) towards such countries by writing to the Data Controller. The Recipients and Sub-Recipients may, as the case may be, process the Personal Data as data processors (when processing the Personal Data on behalf and upon instructions of the Data Controller and/or the Recipients), or as distinct data controllers (when processing the Personal Data for their own purposes, namely fulfilling their own legal obligations).

The Personal Data may also be transferred to third-parties such as governmental, judicial, prosecution or regulatory agencies and/or authorities as well as official national registers, including tax authorities, in accordance with applicable laws and regulations. In particular, the Personal Data may also be disclosed to third parties such as the Luxembourg tax authorities, which in turn may, acting as data controller, disclose the same to foreign tax authorities.

In relation thereto, the Data Subjects can exercise their rights by letter addressed to the Data Controller at the following address: 2-4, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg.

The Data Subjects have a right to lodge a complaint with a data protection supervisory authority. The Data Subjects' Personal Data shall not be held for longer than necessary with regard to the purpose of the data processing carried out under the present contractual relationship, observing the legal periods of limitation.

Any further information about how the Data Controller will be processing Personal Data can be found in the privacy policy of the Fund, which remains available upon request at the registered office of the Management Company. The prospective Investors will be duly informed by means of the subscription agreement.

## **ANTI-MONEY LAUNDERING REGULATIONS**

Pursuant to the Luxembourg laws of 19 February 1973 (as amended), the 1993 Law, and 12 November 2004 in relation to the fight against money laundering and against the financing of terrorism, as amended (the **2004 Law**) and to the circular 13/556 of the CSSF, obligations have been imposed on all professionals of the financial sector to prevent the use of undertakings for collective investment for money laundering purposes. Within this context a procedure for the identification of Investors has been imposed. Namely, the application form of a prospective Investor must be accompanied by any supporting documents recommended or prescribed by applicable rules and regulations allowing the appropriate level of identification of the prospective Investor and, as the case may be, its beneficial owners.

It is generally accepted that professionals of the financial sector resident in a country which has ratified the recommendations of the Financial Action Task Force (*FATF*) are deemed to be

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intermediaries having an identification obligation equivalent to that required under the laws of the Grand Duchy of Luxembourg. The complete updated list of countries having ratified the recommendations of the FATF is available on [www.fatf-gafi.org](http://www.fatf-gafi.org). The Management Company and the AIFM may apply additional guidelines.

Further information on anti-money laundering practices and recommendations may be found on the website of the Association of the Luxembourg Fund Industry's website at [www.alfi.lu](http://www.alfi.lu) (Practices and Recommendations aimed at reducing the risk of money laundering and terrorist financing in the Luxembourg Fund Industry, July 2013).

Any information provided in this context is collected for anti-money laundering compliance purposes only.

### **CAUTIONARY STATEMENT**

The Management Company is empowered to charge a Subscription Charge, a Redemption Charge and an Anti-Dilution Levy in relation to, as the case may be, each issue and redemption of Units, up to a substantial amount of the Net Asset Value of the Fund. Thresholds limiting the maximum number of Units which may be redeemed on each Redemption Day will also be put in place and detailed in the Supplement of each Sub-fund, as applicable. In addition, a substantial portion of the Units may be compulsorily converted into non-redeemable Units in case one (1) or more assets become illiquid. Details of the current Subscription Charge, Redemption Charge, Anti-Dilution Levy, Threshold and process of conversion of Units are set out in the Supplement of each Sub-fund. Other charges may be imposed on a Sub-fund by Sub-fund basis as determined by the Management Company and as foreseen each time in the relevant Supplement.

The Management Company may but will not be obliged to temporarily suspend the determination of the Net Asset Value per Unit of any Sub-fund and the issue and/or redemption of Units in respect of a given Sub-fund or Pool (as defined herein) under specific circumstances (including, without limitation, when the Management Company determines, in its sole discretion, that the proportion of assets of the Fund valued under the Relevant Mark-to-Model Valuation (as defined in the relevant Supplement) represents a significant part of the total assets of the Fund).

The Management Company may also in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in its sole discretion, that the disposal or the valuation of a portion of the assets of a Sub-fund is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of Units is not in the best interest of the Investors in the relevant Sub-fund.



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## DIRECTORY

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| <b>FUND</b>   | AXA IM NOVALTO   |
| <b>MANAGEMENT COMPANY</b>   | AXA Investment Managers Luxembourg S.A.<br>2-4, rue Eugène Ruppert<br>L-2453 Luxembourg                          |
| <b>BOARD OF DIRECTORS OF THE<br/>MANAGEMENT COMPANY</b>   | Mr. Jean-Yves Lassaut<br>Mr. Jean-Michel Bonzom<br>Mr. Frédéric Jacquot  |
| <b>AIFM</b>   | AXA Investment Managers Paris<br>Tour Majunga – 6, place de la Pyramide<br>92908 Paris - La Défense Cedex France |
| <b>DEPOSITARY OF THE FUND</b>   | State Street Bank International GmbH,<br>Luxembourg Branch<br>49, Avenue J.F. Kennedy<br>L - 1855 Luxembourg     |
| <b>ADMINISTRATION AGENT, CORPORATE AND<br/>PAYING AGENT, REGISTRAR AND TRANSFER<br/>AGENT OF THE FUND</b> | State Street Bank International GmbH,<br>Luxembourg Branch<br>49, Avenue J.F. Kennedy<br>L - 1855 Luxembourg     |
| <b>AUDITOR OF THE FUND</b>  | PricewaterhouseCoopers<br>Société coopérative<br>2, rue Gerhard Mercator<br>L-2182 Luxembourg                    |
| <b>AUDITOR OF THE MANAGEMENT COMPANY</b>  | Ernst & Young S.A.<br>35E, avenue J.F. Kennedy<br>L-1855 Luxembourg  |
| <b>LEGAL ADVISOR IN LUXEMBOURG</b>  | Arendt & Medernach S.A.<br>41A, avenue J-F Kennedy<br>L-2082 Luxembourg  |

## 1 DEFINITIONS

Unless defined elsewhere in the Issuing Document or unless the context indicates otherwise, capitalised words and expressions in the Issuing Document have the meaning as described below.

|                                 |   |
|---------------------------------|---|
| <b>Administrative Agent</b>     | means State Street Bank International GmbH, a limited liability company organized under the laws of Germany acting through its Luxembourg branch, having its registered office at 49, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 148186 in its capacity as administrative, corporate, paying, registrar and transfer agent of the Fund;   |
| <b>Administrative Agreement</b> | the agreement relating to the administration agency, corporate and paying agency, registrar and transfer agency, as amended from time to time, entered into by the Management Company, the AIFM and by the Administrative Agent as of 1 January 2023;   |
| <b>Affiliate</b>                | <p>an entity or Person directly or indirectly controlling or controlled by or under common control with the relevant party. The term “control” (and any cognate expression) means, in respect of an entity, the right to:</p> <ul style="list-style-type: none"><li>(a) exercise the majority of the voting rights of shareholders of that entity; or</li><li>(b) appoint the majority of the members of the board of the entity; or</li><li>(c) determine the policy and strategy of that entity;</li></ul>  |
| <b>AIF</b>                      | an alternative investment fund as defined under article 1 para 39 of the AIFM Law;  |
| <b>AIFM</b>                     | AXA Investment Managers Paris, a company incorporated and organised under the laws of France, having its registered office at Tour Majunga - 6, place de la Pyramide - 92908 La Défense Cedex, registered with the Trade and Companies Registry under number <a href="#">353 534 506 RCS Nanterre</a> , in its function as an authorized alternative investment fund manager within the meaning of article 5(1) a of the AIFMD and article 4(1) a) of the AIFM Law, or any other Person appointed by the Management Company from time to time as alternative investment fund manager. |
| <b>AIFM Agreement</b>           | the alternative investment fund management agreement, as amended from time to time, entered into by the Management Company and by the AIFM as of 1 January 2023;  |
| <b>AIFMD</b>                    | Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending  |

Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010;

**AIFM Law** the Luxembourg law dated 12 July 2013 on alternative investment fund managers and implementing the AIFMD;

**AXA IM Climate Risks Policy** means the climate risks policy established by the AIFM, as may be amended or modified from time to time by the AIFM;

**AXA IM Controversial Weapons Policy** means the controversial weapons policy established by the AIFM, as may be amended or modified from time to time by the AIFM;

**AXA IM Commodity Derivatives Policy** means the commodity derivatives policy established by the AIFM, as may be amended from time to time by the AIFM;

**AXA IM Ecosystem Protection & Deforestation Policy** means the ecosystem protection and deforestation policy established by the AIFM, as may be amended and modified from time to time by the AIFM;

**AXA IM ESG Standards Policy** means the ESG standards policy established by the AIFM, as may be amended from time to time, provided that for the purposes of Gaia the Fund, the “Low ESG quality” component of the AXA IM ESG Standards Policy shall not apply;

**AXA IM Global ESG Policies** means each of the AXA IM Climate Risks Policy, the AXA IM Controversial Weapons Policy, the AXA IM Commodity Derivatives Policy, and the AXA IM Ecosystem Protection & Deforestation Policy and the AXA IM ESG Standards Policy;

**Base Currency** means the reference currency of the Fund, a Sub-fund, a Class or a Sub-Class, being for consolidated reporting purposes of the Fund, USD;

**Business Day** a full day on which banks are open the all day for business in Luxembourg, London, New York City and Paris;

**CHF** the currency of Switzerland;

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| <b>Class or Classes</b>     | each class of Units in issue or to be issued in each Sub-fund by the Management Company, if any;  |
| <b>CRS</b>                  | means i) the Standard for Automatic Exchange of Financial Account Information in Tax matters and its Common Reporting Standard published by the OECD and implemented by the Directive 2014/107/EU amending the Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation, (ii) the OECD's multilateral competent authority agreement to automatically exchange information under the CRS and (iii) the CRS Law; |
| <b>CRS Law</b>              | means the Luxembourg law dated 18 December 2015 implementing the Directive 2014/107/EU of 9 December 2014 as regards the mandatory automatic exchange of information in the field of taxation;  |
| <b>CSSF</b>                 | the <i>Commission de Surveillance du Secteur Financier</i> , the Luxembourg supervisory authority for the financial sector or any successor authority from time to time;  |
| <b>Depository</b>           | State Street Bank International GmbH, a limited liability company organized under the laws of Germany acting through its Luxembourg branch, having its registered office at 49, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 148186, in its capacity as depository;   |
| <b>Depository Agreement</b> | means the depository agreement, as amended from time to time, entered into by and between the Management Company, the AIFM and by the Depository as of 1 January 2023;  |
| <b>EUR</b>                  | the currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome in 1957) as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992);  |
| <b>EURIBOR</b>              | means the Euro Interbank Offer Rate, a reference rate that is constructed from the average interest rate at which eurozone banks offer unsecured short-term lending on the inter-bank market or equivalent successor benchmark rate, as administrated by the European Money Markets Institute (or any successor administrator);   |
| <b>FATCA</b>                | means the provisions of the United States Hiring Incentives to Restore Employment ( <b>HIRE</b> ) Act of 18 March 2010 commonly referred to as the Foreign Account Tax Compliance Act, and other regulations promulgated thereunder;  |

|   |   |
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| <b>FATCA Law</b>                                | means the Luxembourg law dated 24 July 2015 implementing FATCA, as amended or supplemented from time to time;   |
| <b>Financial Instruments</b>                    | has the meaning set out in article 1(51) of the AIFM Law;   |
| <b>Financial Year</b>                           | each fiscal year of the Fund as described in section 27.2 of this Issuing Document;   |
| <b>Fund</b>                                     | AXA IM NOVALTO, a mutual investment fund ( <i>fonds commun de placement</i> ) organised in the form of an umbrella specialised investment fund ( <i>fonds d'investissement spécialisé</i> ) under the SIF Law and managed by the Management Company in accordance with the Management Regulations;  |
| <b>Fund Documents</b>                           | collectively:<br>(a) the Management Regulations; and<br>(b) the Issuing Document;   |
| <b>Initial Subscription Day</b>                 | has the meaning ascribed to it in the relevant Supplement for each Sub-fund;  |
| <b>Insured Event</b>                            | means a phenomenon that occurs at a specific time, in a specific place, and in a specific way, thereby triggering the payment of insurance claims and/or affecting a single insurance policy or multiple insurance policies;  |
| <b>Investment Objectives</b>                    | means the investment objectives of the Fund and each Sub-fund;  |
| <b>Investor(s) or Well-Informed Investor(s)</b> | means any holder of Unit(s) in the Fund which qualifies as a "Well-Informed Investor" as per article 2 of the SIF Law qualifying as "Professional Clients" within the meaning of Annex II of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments;   |
| <b>Investors' Ordinary Consent</b>              | means in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all of the Sub-funds), as the case may be, the affirmative vote of Investors representing at least 50 per cent. of the Units present or represented at a physical meeting, provided a quorum of at least 25 per cent. of the Units issued and outstanding in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all the Sub-funds), as the case may be, is present or represented at such physical meeting or, in case the affirmative vote is, at the Management Company's discretion, to be registered in writing |

(i.e., by post, fax or email) means the affirmative vote of Investors representing at least 50 per cent. of all the Units issued and outstanding in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all the Sub-funds), as the case may be;

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| <b>Investors' Special Consent</b> | means in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all the Sub-funds), as the case may be, the affirmative vote of Investors representing at least 75 per cent. of the Units present or represented at a physical meeting, provided a quorum of at least 25 per cent. of the Units issued and outstanding in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all the Sub-funds), as the case may be, is present or represented at such physical meeting or, in case the affirmative vote is at the Management Company's discretion, to be registered in writing (i.e., by post, fax or email) means the affirmative vote of Investors representing at least 75 per cent. of all the Units issued and outstanding in respect of a given Sub-fund or at the level of the Fund (aggregating all Units issued and outstanding in respect of all the Sub-funds), as the case may be; |
| <b>IRS</b>                        | the US Internal Revenue Service;  |
| <b>Issuing Document</b>           | the issuing document issued in respect of the Fund, including the Supplement(s), as amended from time to time;  |
| <b>Issue Price</b>                | the price at which Units of each Class or Sub-Class are to be issued as determined by the Management Company in respect of each Sub-fund;   |
| <b>Management Company</b>         | AXA Investment Managers Luxembourg S.A., a Luxembourg public limited liability company ( <i>société anonyme</i> ) having its registered office at 2-4, rue Eugène Ruppert, L-2453 Luxembourg, whose registration number with the Luxembourg Trade and Companies Register is B 274150, incorporated on 1 January 2023 pursuant to a notarial deed dated 12 December 2022 published in the recueil électronique des sociétés et associations (RESA) dated 29 December 2022;   |
| <b>Management Regulations</b>     | the management regulations entered into by the Management Company and the Depositary, with effect as of 1 March 2023 and to be published in the recueil électronique des sociétés et associations (RESA);   |
| <b>Member State</b>               | means a member state of the European Union;   |

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| <b>Net Asset Value / NAV</b>  | the net asset value of the Fund, a Sub-fund, a Class, a Sub-Class or a Unit, as applicable from time to time, determined in accordance with section 12 of the Management Regulations;   |
| <b>Non-Qualified Person</b>   | means any person, firm or corporate body, namely any person in breach of any law or requirement of any country or governmental authority and any person which is not qualified to hold Units by virtue of such law or requirement or if in the opinion of the Management Company such holding may be detrimental to the Fund;   |
| <b>Other Assets</b>           | any assets (other than cash) which are not Financial Instruments capable of being held in custody with the Depositary within the meaning of article 19(8) a) of the AIFM Law;   |
| <b>Other Regulated Market</b> | means a market which is regulated, operates regularly and is recognised and open to the public, namely a market (i) that meets the following cumulative criteria: liquidity; multilateral order matching (general matching of bid and ask prices in order to establish a single price); transparency (the circulation of complete information in order to give clients the possibility of tracking trades, thereby ensuring that their orders are executed on current conditions); (ii) on which the securities are dealt in at a certain fixed frequency, (iii) which is recognised by a State or by a public authority which has been delegated by that State or by another entity which is recognised by that State or by that public authority such as a professional association and (iv) on which the securities dealt in are accessible to the public; |
| <b>Other State</b>            | means any State of Europe which is not a Member State, and any State of America, Africa, Asia and Oceania;  |
| <b>Person</b>                 | any corporation, company, trust, partnership, estate, unincorporated association or other legal entity, including an individual;  |
| <b>Pool</b>                   | a segregated sub-pool of assets and liabilities within a given Sub-fund created in accordance with the terms and conditions of the relevant Supplement;   |
| <b>Redemption Day</b>         | has the meaning ascribed to it in the relevant Supplement for a given Sub-fund;   |
| <b>Register</b>               | the register established and maintained by the Administrative Agent in order to record the ownership of Units from time to time;  |
| <b>Regulated Market</b>       | means a regulated market as defined in the Council Directive 2004/39/EC dated 21st April 2004 on investment services in the securities field (the <b>Directive 2004/39/EC</b> ), namely a multilateral  |



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|                          | system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in Financial Instruments – in the system and in accordance with its non-discretionary rules – in a way that result in a contract, in respect of the Financial Instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly in accordance with the provisions of the Directive 2004/39/EC, |
| <b>SARON</b>             | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator).  |
| <b>Side-Pocket</b>       | has the meaning ascribed to that term in section 15 of this Issuing Document;   |
| <b>Series</b>            | a series of Units in issue or to be issued in each Class, respectively Sub-Class, if any;   |
| <b>Service Providers</b> | means the Depositary, the Administrative Agent and any other Person appointed by the Management Company from time to time;  |
| <b>SFDR</b>              | means Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended from time to time;   |
| <b>SIF Law</b>           | the Luxembourg law dated 13 February 2007 relating to specialised investment funds, as amended from time to time;   |
| <b>SOFR</b>              | means the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York (or any successor administrator);   |
| <b>SONIA</b>             | means the Sterling Overnight Index Average rate administered by the Bank of England (or any successor administrator);   |
| <b>SORA</b>              | means the Singapore Overnight Rate Average provided by the Monetary Authority of Singapore (or any successor administrator) on the Monetary Authority of Singapore's Website (or as published by its authorized distributors);  |
| <b>Sub-Class(es)</b>     | a sub-class (or sub-classes) of Units in a Class, if any;   |
| <b>Sub-fund</b>          | the Fund is organised as a specialised investment fund with multiple sub-funds whereby each sub-fund represents a distinct pool of assets with the possibility to create within each such sub-fund further  |

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|                             | segregated asset sub-pools, i.e., Pools and managed by the Management Company according to the specifications included in the relevant Supplement;   |
| <b>Subscription Day</b>     | has the meaning ascribed to it in the relevant Supplement for each Sub-fund;   |
| <b>Subscription Form</b>    | each subscription form entered into by the Management Company and an Investor and setting out: <ul style="list-style-type: none"> <li>(a) the rights and obligations of that Investor in relation to its investment in the Fund, its adherence to the Fund Documents;</li> <li>(b) representations and warranties given by that Investor for the benefit of the Fund;</li> </ul> |
| <b>Subscription Amount</b>  | with respect to a Subscription Day, the amount that an Investor intends to invest in a specific Sub-fund, as indicated in the relevant Subscription Form;  |
| <b>Supplement</b>           | the supplement to the Issuing Document containing information on a specific Sub-fund. The Supplement, as amended from time to time, must always be read in conjunction with the Issuing Document. In case of conflict between any of the contents of the Issuing Document and any of the contents of the Supplement, the Supplement will prevail;                                |
| <b>Sustainability Risks</b> | refer to environmental, social or corporate governance events or conditions (ESG), the occurrence of which could have an actual or potential material adverse effect on the value of an investment of the Fund, as defined by SFDR;  |
| <b>Unit</b>                 | a co-ownership participation in a specific Sub-fund, which may be issued pursuant to the Management Regulations at any time at the Issue Price as specified in the relevant Supplement;  |
| <b>United States or US</b>  | the United States of America (including the States and the District of Columbia) and any of its territories, possessions and other areas subject to its jurisdiction;  |
| <b>USD</b>                  | the currency of the United States of America;  |
| <b>US Person</b>            | a citizen or resident of the United States, a corporation, partnership or any other entity created in or under the laws of the United States or any person falling within the definition of the term "United States Person" under the 1933 Act; and  |

**Valuation Point**

has the meaning ascribed to this term in the relevant Supplement in respect of a given Sub-fund.

## 2 THE FUND

The Fund is a mutual investment fund (*fonds commun de placement*) organised in the form of an umbrella specialised investment fund (*fonds d'investissement spécialisé*) under the SIF Law. The Fund has been established for an unlimited period of time. The Fund is an unincorporated co-ownership of assets, managed in the interest of its co-owners by the Management Company. The assets of the Fund, which are held in custody by the Depositary or any correspondent custodian bank, are segregated from those of the Management Company and the AIFM and from those of other collective investment undertakings managed by the Management Company or the AIFM, if any. Under the AIFM Law, the Fund qualifies as an AIF and AXA Investment Managers Paris is its authorised external AIFM.

The Fund is an umbrella fund consisting of different Sub-funds. Each Sub-fund is comprised of all that has been paid on the Units in the relevant Sub-fund, all that has been obtained by the Fund with the said payments, all resulting benefits and all debts, liabilities and other commitments incurred by the Fund for the account of the Sub-fund concerned. Each Sub-fund has its own investment policy. The introduction of a Sub-fund is effected pursuant to a decision to that end by the Management Company.

The assets and liabilities of each Sub-fund shall be segregated from the assets and liabilities of the other Sub-fund(s), with creditors having recourse only to the assets of the Sub-fund concerned. As between the Investors, each Sub-fund will be deemed to be a separate entity. The Management Company may within each Sub-fund create different Pools and issue one or several Unit Classes in respect of each Pool. The assets and liabilities of each Pool shall be segregated from the assets and liabilities of the other Pools within the same Sub-fund or within any other Sub-fund, with creditors having recourse only to the assets of the Pool concerned. As between the Investors, each Pool will be deemed to be a separate co-ownership in respect of which they shall have neither rights nor obligations.

The Fund will rely upon the business judgment, expertise and integrity of the directors of the Management Company. The Management Company will be supported by other entities and teams of highly experienced and well qualified professionals of the AXA Group.

## 3 MANAGEMENT AND ADMINISTRATION

The Fund is managed in accordance with the Management Regulations, which have been entered into by and between the Management Company and the Depositary. The Management Regulations may from time to time be amended in accordance with the Management Regulations.

By executing a Subscription Form and/or by the acquisition of Units, each Investor fully accepts the Fund Documents which determine the contractual relationship between the Investors, the Management Company and the Service Providers, as well as between the Investors themselves.

#### 4 MANAGEMENT COMPANY

The Fund will be managed by AXA Investment Managers Luxembourg S.A., a Luxembourg public liability company (*société anonyme*) having its registered office at 2-4, rue Eugène Ruppert L-2453 Luxembourg.

AXA Investment Managers Luxembourg S.A. is a management company authorised under Chapter 16 of the Luxembourg law of 17 December 2010 on undertakings for collective investment, as amended.

The Management Company is vested with the broadest powers to administer and to manage the Fund and each Sub-fund in the interest of the Investors, in accordance with the Management Regulations. The Management Company has the ultimate responsibility for the management and control of the business of the Fund and each Sub-fund. However, the Management Company may delegate certain responsibilities to the AIFM or other service providers to implement the Investment Objectives and to administer and manage the assets of the Fund and each Sub-fund.

The Management Company is managed by a board of directors (the **Board**).

The Board retains legal decision-making power and has the exclusive authority with regard to any decisions not specifically delegated or attributed to another entity or any other service provider and supervises all the service providers in the performance of their duties as further specified in the Management Regulations.

The Management Company may thus, under its full responsibility, be assisted, while managing the assets of the Fund and each Sub-fund by one (1) or several service providers or, delegate its powers in relation to the management of the Fund or a specific Sub-fund to one (1) or several advisors, consultants or other service providers.

The Management Company may withdraw, including through resignation, as the management company of the Fund only if it has arranged for its succession by nominating a successor, approved by an Investors' Special Consent and subject to the approval of the CSSF.

The Management Company is entitled to receive a Management Fee out of the assets of each Sub-fund, as further detailed in each Supplement.

## 5 AIFM

### 5.1 The AIFM

The Management Company has appointed AXA Investment Managers Paris as the external AIFM of the Fund under the AIFM Law pursuant to the AIFM agreement.

AXA Investment Manager Paris is organised as a public limited company ("*société anonyme*") under French law, having its registered office in Paris.

AXA Investment Manager Paris has approximately 887 billion euros in assets under management as of 31 December 2021 (unaudited figures). AXA Investment Manager Paris is a specialist asset management subsidiary within the AXA Group and employs over 2,460 people globally. AXA Investment Manager Paris's investment activities include traditional as well as structured and alternative assets. AXA Investment Manager Paris is authorised by the AMF as UCITS management company and alternative investment fund manager. AXA Investment Managers Paris is subject to the supervision of the AMF, the French regulatory authority.

AXA Investment Manager Paris is entrusted under the AIFM Agreement with the portfolio management, the risk management, the marketing, the administration, the distribution and the valuation functions for the Fund and shall ensure that the Fund is managed in compliance with the AIFMD.

The AIFM will have the responsibilities set out in the AIFM Agreement and the AIFMD subject to the overall supervision of the Management Company. Among other things, the AIFM will manage the Sub-fund's investments and make investments in accordance with the investment objective, strategy and restrictions of a given Sub-fund.

The AIFM may delegate certain of its responsibilities under the AIFM Agreement to its Affiliates and to third parties pursuant to appropriate agreements.

The AIFM Agreement will terminate automatically upon completion of the liquidation of all Sub-funds. Also, it may be terminated earlier in accordance with the terms and conditions of the AIFM Agreement.

In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Fund or any of its Sub-funds, where applicable.

## **5.2. Potential Professional Liability Risks**

The AIFM has additional own funds which are appropriate to cover potential liability risks arising from professional negligence in its capacity as alternative investment fund manager of the Fund. Based on the existence of these available assets, it is not considered that additional contributions to cover any new risks attributable to the Fund, or a liability insurance, are required. This statement is applicable at the date of this Issuing Document. If it happens during the life of the Fund that the AIFM does not have sufficient additional own funds to cover potential liability risks arising from professional negligence, the AIFM will review its arrangements.

## **5.3 Risks and Liquidity Management**

In accordance with inter alia the AIFMD, the AIFM shall use a risk-management process which enables it to detect, measure, manage and follow risks related to the investments of the Fund and each of its Sub-funds and their effect on its risk profile. As such the AIFM shall ensure that the risk profile of the Fund and each of its Sub-funds is relevant in light of its size, portfolio's structure, strategies and investment objectives.

In accordance with the AIFMD, the AIFM has adopted appropriate liquidity management tools and procedures allowing to measure the liquidity risk of the Fund and each of its Sub-funds, so as to ensure that the liquidity profile of the Fund's and Sub Fund's investments is in line with its obligations and notably that the Fund and the Sub Fund's will be respectively in position to satisfy Investors' redemption request in accordance with the provision of this Issuing Document. As such, the AIFM ensures the coherence of the investment strategy, the liquidity profile and the redemption policy of the Fund and Sub Funds.

The AIFM shall regularly conduct stress tests, under normal and exceptional liquidity conditions, which enable it to assess the liquidity risk of the Fund and Sub Funds.

## **5.4 Rules of Conduct**

The AIFM shall at all times comply with the following rules of conduct:

- act honestly, with due skill, care and diligence and fairly in conducting its activities;
- act in the best interest of the Fund (or Sub-Fund) or its Investors and the integrity of the market;
- have and employ effectively the resources and procedures that are necessary for the proper performance of its business activities;
- take all reasonable steps to avoid conflicts of interest and, when they cannot be avoided, to identify, manage and monitor and, where applicable, disclose those conflicts of interest in order to prevent them from adversely affecting the interests of the Fund (or Sub-fund) and its Investors and to ensure that the alternative investment

funds it shall manage are fairly treated;

- comply with all regulatory requirements applicable to the conduct of their business activities so as to promote the best interests of the Fund (or Sub-fund) or its Investors and the integrity of the market;
- treat all Investors fairly.

The AIFM shall ensure that its decision-making procedures and its organisational structure ensure fair treatment of Investors.

## **5.5. Conflicts of interest**

Where conflicts of interest cannot be avoided and there exists a risks of damage to Investors' interests, the Management Company or the AIFM shall inform the Investors of the general nature or causes of the conflicts of interest and develop appropriate policies and procedures in order to mitigate such conflicts while ensuring equal treatment between Investors and ensuring that the Fund (or Sub-fund) is treated in an equitable manner.

Investors should be aware that management of conflicts of interest can lead to a loss of investment opportunity or to the Fund (or Sub-fund) having to act differently than the way it would have acted in the absence of the conflict of interest. This may have a negative impact on the performance of the Fund (or Sub-fund).

## **5.6. Due diligence**

In accordance with Articles 3(7) and 4(1) of the 2004 Law, the AIFM shall apply due diligence measures on the assets of the Fund (including, for the avoidance of doubt, the underlying investments of the relevant sub-funds). In addition, in accordance with Article 34(2) of CSSF Regulation 12-02 relating to the fight against money laundering and the financing of terrorism, as amended (the **CSSF Regulation 12-02**), the AIFM shall also carry out an analysis of the Money Laundering/Terrorist Financing risk posed by the investment and take due diligence measures adapted to the risk assessed and documented. Such analyses shall be formalised. The risk analysis on investments shall be reviewed annually and when particular events require it.

Besides, enhanced due diligence will be performed under the supervision and responsibility of the AIFM on any distributor, sub-distributor or nominee, in accordance with Article 3-2 of the 2004 Law and Article 3 of CSSF Regulation 12-02.



## 6 DEPOSITARY

State Street Bank International GmbH, a limited liability company organized under the laws of Germany acting through its Luxembourg branch, having its registered office at 49, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 148186 is the Depositary of the Fund.

The duties of the Depositary are set forth in the Depositary Agreement, governed by Luxembourg law, and cover the duties set forth by the AIFM Law.

The Management Company has appointed State Street Bank International GmbH, acting through its Luxembourg Branch, as the Depositary within the meaning of the SIF Law pursuant to the Depositary Agreement. State Street Bank International GmbH is a limited liability company organized under the laws of Germany, having its registered office at Brienner Str. 59, 80333 München, Germany and registered with the commercial register court, Munich under number HRB 42872. It is a credit institution supervised by the European Central Bank (ECB), the German Federal Financial Services Supervisory Authority (BaFin) and the German Central Bank. State Street Bank International GmbH, Luxembourg Branch is authorized by the CSSF in Luxembourg to act as depositary and is specialized in depositary, fund administration, and related services. State Street Bank International GmbH, Luxembourg Branch is registered in the Luxembourg Commercial and Companies' Register (RCS) under number B 148 186. State Street Bank International GmbH is a member of the State Street group of companies having as their ultimate parent State Street Corporation, a US publicly listed company.

The assets of the Fund or the Management Company acting on behalf of the Fund shall be entrusted to the Depositary for safe-keeping, as follows:

- (a) for Financial Instruments that can be held in custody:
  - (i) the Depositary shall hold in custody all Financial Instruments that can be registered in a Financial Instruments account opened in the Depositary's books and all Financial Instruments that can be physically delivered to the Depositary;
  - (ii) for that purpose, the Depositary shall ensure that all those Financial Instruments that can be registered in a Financial Instruments account opened in the Depositary's books are registered in the Depositary's books within segregated accounts in accordance with the principles set out in Article 16 of Directive 2006/73/EC, opened in the name of the Fund or the Management Company/the AIFM acting on behalf of the Fund, so that they can be clearly identified as belonging to the Fund in accordance with the applicable law at all times;
- (b) for Other Assets:
  - (i) the Depositary shall verify the ownership of the Fund or the Management Company/AIFM acting on behalf of the Fund of such assets and shall maintain a

record of those assets for which it is satisfied that the Fund or the Management Company/AIFM acting on behalf of the Fund holds the ownership of such assets;

(ii) the assessment whether the Fund or the Management Company/AIFM acting on behalf of the Fund holds the ownership shall be based on information or documents provided by the Management Company or the AIFM and, where available, on external evidence;

(iii) the Depositary shall keep its record up-to-date.

In addition to the tasks referred to above, the Depositary shall in particular:

- (a) ensure that the sale, issue, re-purchase, redemption and cancellation of the Units of the Fund are carried out in accordance with Luxembourg law and the Management Regulations;
- (b) ensure that the Net Asset Value per Unit of each Sub-fund is calculated in accordance with Luxembourg law, the Management Regulations and the procedures laid down in article 17 of the AIFM Law;
- (c) carry out the instructions of the Management Company or the AIFM, unless they conflict with Luxembourg law or the Management Regulations or this Issuing Document;
- (d) ensure that in transactions involving the Fund's assets any consideration is remitted to the Fund within the usual time limits;
- (e) ensure that the Fund's income is applied in accordance with Luxembourg law and the Management Regulations.

The Depositary is entitled to the fees determined in accordance with the Depositary Agreement, which fees shall be in accordance with Luxembourg market standards.

The Management Company and the Depositary may terminate the appointment of the Depositary at any time upon ninety (90) days written notice provided, however, that such termination is subject to the suspensive condition that another depositary accepts the responsibilities and function of the Depositary. Until it is replaced, which shall intervene within two (2) months, the Depositary must take all measures necessary to ensure that the interests of the Investors are preserved.

The Depositary is not authorised to delegate to third parties its depositary functions, save for those relating to (i) the safekeeping of Financial Instruments to be held in custody and (ii) the verification of ownership and the maintenance of a record with respect to Other Assets. Such third parties shall be appointed by the Depositary under its responsibility with due skill, care and diligence. The above delegations shall at each time be justified by objective reasons and comply with the other conditions laid down in the AIFM Law.

The Depositary shall be liable to the Fund or its Investors for the loss of Financial Instruments by the Depositary or a third party to whom the custody of Financial Instruments has been delegated except in case a force majeure event has occurred within the meaning of article 19(12) second paragraph of the AIFM Law. The Depositary shall also be liable to the Fund or its Investors for all other losses suffered by them as a result of its negligent or intentional failure to properly fulfil its obligations. The liability to Investors shall be invoked through the Management Company. Should the Management Company fail to act despite a written notice to that effect from an Investor within a period of three months following receipt of such a notice, that Investor may directly invoke the liability of the Depositary.

## **7 ADMINISTRATIVE AGENT**

The AIFM has appointed State Street Bank International GmbH, acting through its Luxembourg Branch as the administrative, registrar and transfer agent and as administration, corporate, paying, registrar and transfer agent of the Fund (the **Administrative Agent**).

State Street Bank International GmbH is a limited liability company organized under the laws of Germany, having its registered office at Brienner Str. 59, 80333 München, Germany and registered with the commercial register court, Munich under number HRB 42872. It is a credit institution supervised by the European Central Bank (ECB), the German Federal Financial Services Supervisory Authority (BaFin) and the German Central Bank. State Street Bank International GmbH, Luxembourg Branch is authorized by the CSSF in Luxembourg to act as depositary and is specialized in depositary, fund administration, and related services. State Street Bank International GmbH, Luxembourg Branch is registered in the Luxembourg Commercial and Companies' Register (RCS) under number B 148 186. State Street Bank International GmbH is a member of the State Street group of companies having as their ultimate parent State Street Corporation, a US publicly listed company.

The services to be provided by the Administrative Agent are listed in the Administration Agreement, a copy of which is available upon request to the Management Company or the AIFM.

The AIFM and the Administrative Agent may terminate the appointment of the Administrative Agent at any time upon ninety (90) days written notice.

## **8 AUDIT**

The Management Company has appointed PricewaterhouseCoopers Société coopérative as independent auditor (*réviseur d'entreprises*) of the Fund who shall carry out the duties prescribed by the SIF Law.

## **9 INVESTMENT OBJECTIVES AND POLICY**

### **9.1 Investment Objectives and Policy**

The Fund has as investment objective to seek to provide Investors, over the life of the Fund, with an absolute rate of return while implementing a monitoring of risk, and to achieve long term capital growth and/or income from investment through the Sub-funds.

There can be no assurance that the Sub-funds' investment objectives will be achieved. Investment results may substantially vary over time.

In addition, each Sub-fund's specific investment objective and investment policy as well as its specific investment restrictions, if any, are referred to in the relevant Supplement.

### **9.2 General Investment Restrictions**

The AIFM will manage the Fund, each Sub-fund and within each Sub-fund, each Pool, by application of the principle of risk diversification.

Investment restrictions aiming at achieving a sufficient level of risk diversification are more fully disclosed in the relevant Supplement to the Issuing Document for each Sub-fund individually.

Though the Management Company shall set more detailed and specific investment policies and restrictions on a Sub-fund by Sub-fund basis, the following general guidelines are set in compliance with CSSF Circular 07/309.

The Sub-fund shall thus not invest more than 30 per cent. of its assets or commitments in subscribing for securities or assets of the same kind issued by the same issuer; though this restriction shall not apply:

- to investments in securities issued or certified by a member State of the OECD or by its territorial public communities or by the institutions and supranational bodies being common, local or global;
- to investments in target undertakings for collective investments that are subject to risk spreading requirements at least comparable to the restrictions set out in CSSF Circular 07/309;
- to investments accounted for in different series of securities which are issued by the same issuer (for this purpose, each series being deemed to be issued by a "sub-issuer"), provided that the assets and liabilities of each sub-issuer are segregated from the assets and liabilities of the other sub-issuers, *inter alia* by means of segregated accounts, with creditors having recourse only to the assets of the sub-issuer concerned, i.e. to the specific account of the sub-issuer concerned.

Short sales shall not result in a given Sub-fund holding an uncovered exposure in respect of securities or assets of the same kind issued by the same issuer, which account for more than 30 per cent of the Sub-fund's assets.

When using derivative Financial Instruments, each Sub-fund shall ensure a comparable level of risk spreading by an appropriate level of diversification of the underlying assets. For the same purpose, the counterparty risk shall in respect of certain over-the-counter trades be limited subject to the quality and the qualification of the counterparty.

## **10 UNITS**

### **10.1 Units**

- (a) The Management Company may offer different Classes and Sub-Classes of Units. Each Class and Sub-Class may have different features or may be offered to different types of Well-Informed Investors. Within each Sub-fund, Class and Sub-Class, Units may be issued as capitalisation Units and/or as distribution Units. The features of the Units available within each Sub-Fund are set out in the relevant Supplement. Units within each Class may be designated in separate Series, each corresponding to a specific issue date, as determined for each Class of Units and specified, if any, in the relevant Supplement to the Issuing Document. Units of each Series will have the same characteristics as the Units of each other Series of the same Class of Units. Units of differing Series but of the same Class, respectively Sub-Class will differ only in respect of their issue date and thus in respect of any right or obligation based on such issue date, including but not limited to fees and allocations to be paid or transferred. In relation to certain Series, the Management Company and/or the AIFM may also pay rebates to the extent permitted by the applicable regulations governing the Management Company, the AIFM, the Fund and the recipient, while seeking to ensure that investors are treated fairly and trying to avoid conflicts of interest.
- (b) Units may only be offered to Well-Informed Investors. If any Well-Informed Investor is an insurance undertaking, that undertaking must invest in the Fund in its own name and remain the sole legal owner of the Units, without any possibility of transfer to its policy holders.
- (c) Units will be issued in registered form and partly or fully paid-up as set forth in the relevant Supplement.
- (d) Unless otherwise provided for in the relevant Supplement to the Issuing Document, Units have no preferential or pre-emption rights and are subject to any transfer and redemption restrictions as provided for in the relevant Supplement.
- (e) The Fund will issue Units in registered form only and the Register kept by the Administrative Agent is conclusive evidence of ownership. The Management

Company will treat the registered owner of a Unit as the absolute legal owner of that Unit.

- (f) Unit certificates or confirmations of ownership will be jointly signed by the Management Company and the Depositary. Unit certificates or confirmations of ownership will be delivered by the Management Company within seven (7) Business Days upon special request from the relevant Investor provided that payment therefore has been received by the Depositary from that Investor.
- (g) Unless otherwise provided for in the relevant Supplement, the Management Company will not apply for the admission of the Units to the Official List and to trading on the Euro MTF market of the Luxembourg Stock Exchange. The secondary trading of the Units on the Euro MTF will always be permitted. Information and financial notices will be published on the Luxembourg Stock Exchange website at [www.bourse.lu](http://www.bourse.lu).

## **10.2 Subscription and ownership**

- (a) Well-Informed Investors wishing to invest in the Fund must execute a Subscription Form which, as the case may be, upon acceptance, will be approved by the Management Company. Investors will also complete all forms necessary or useful for the compliance with tax rules.
- (b) The Management Company in its absolute discretion has the right to accept or reject any application to invest in the Fund and may further restrict or prevent the ownership of Units by specific categories of Persons. The relevant Supplement to the Issuing Document may contain guidelines in this respect. The Management Company may require any subscriber to provide it with any information that it may consider necessary for the purpose of deciding whether or not such Person is eligible to invest in the Fund.
- (c) On the basis of the information received by, and with the assistance of, the Management Company, the Administrative Agent must be able to verify that prospective Investors in the Fund comply with the status of Well-Informed Investor.
- (d) Save in respect of the Initial Subscription Day, on which Units will be issued at the initial Issue Price as set forth in the relevant Supplement, the Management Company will issue Units at the Net Asset Value per Unit of the relevant Class, Sub-Class and Series within the relevant Sub-fund as applicable as at the relevant Subscription Day, subject to such adjustments as set forth in the relevant Supplement.

Units will be issued up to three (3) decimal places of a Unit. Fractional Units will be issued to the nearest thousandth of a Unit, and such fractional Units shall not be entitled to vote but shall be entitled to a participation in the net results and in the proceeds of liquidation attributable to the relevant fractional Unit in the relevant Sub-fund on a *pro rata* basis.

Payments for Units will be required to be made in the Base Currency of the relevant Class or Sub-Class, if any, or in the Base Currency of the relevant Sub-fund or in any other currency specified by the Investor (in which case any currency conversion costs shall be borne by the Investor).

Cleared funds in the appropriate currency must be received by the Administrative Agent no later than the day specified in the relevant Supplement to the Issuing Document. Where payment is not received in due time, the Administrative Agent, acting upon the direction of the Management Company, may cancel the subscription.

The Management Company may, but is not obliged to, agree to issue Units as consideration for a contribution in kind of securities or other assets, provided that such securities or other assets comply with the investment objective, policy and restrictions of the relevant Sub-fund. Any costs incurred in connection with a contribution in kind of securities shall be borne by the relevant Investor.

No Units of any Sub-fund will be issued during any period when the calculation of the Net Asset Value per Unit in such Sub-fund is suspended by the Management Company as set forth in the Management Regulations.

The Management Company may, at its discretion, cease to issue Units temporarily or definitely.

### **10.3 Specific matters**

Specific matters relating to the offering of Units and subscription process of Units of each Sub-fund are referred to in the relevant Supplement to the Issuing Document.

## **11 INVESTORS**

### **11.1 Investor no longer “Well-Informed Investor”**

In case an Investor no longer complies with the status of “Well-Informed Investor” and is, for that reason, in breach of its representations and warranties in its Subscription Form, the Management Company, to the extent that it has received such information, must redeem all the Units of that Investor as soon as practicable. The redemption is effected in accordance with section 11. of the Management Regulations.

### **11.2 Representations, warranties and undertakings**

Each Investor will make certain representations and give certain warranties and undertakings as set out in the relevant Subscription Form. If, at any time during the term of the Fund, any of those representations, warranties or undertakings ceases to be true or is

breached, the Investor must promptly notify the Management Company in writing of that fact.

### 11.3 Tax representations

Each Investor may have to complete certain forms for tax purposes. If at any time during the term of this Fund, any of the information contained therein alter, which would affect the previously submitted form, the Investor must promptly notify the Management Company in writing of that fact. The Investor will also submit the necessary form or reconfirm the accuracy of the information previously contained when so requested by the Management Company.

The Management Company may also redeem all the Units of an Investor should the change of its tax status under some country's tax rules or its failure to comply with its obligation to complete appropriate forms be prejudicial to the Fund or the Management Company, provided that such failure could lead to detrimental consequences for the Fund.

## 12 TRANSFER OF UNITS

Unless otherwise provided in the relevant Supplement of the Issuing Document an Investor (a **Transferor**) may only sell, donate, exchange, assign, transfer, pledge (other than in connection with a borrowing for the Fund), hypothecate or otherwise transfer, to or in favour of any party (a **Transferee**), all or some of its Units (each a **Transfer**):

- (i) to a Transferee that qualifies as a "Well-Informed Investor" and that has completed all forms necessary or useful for the compliance with any applicable tax rules; and
- (ii) subject to the terms of the relevant Supplement to the Issuing Document; and
- (iii) subject to the prior approval of the Management Company.

Any Transfer that meets the criteria set out above shall be registered into the Register.

Where Units are subscribed by or held for the benefit of a US Person (as defined in Regulation S promulgated under the Securities Act of 1933 of the United States, as amended), or transferred to or for the benefit of a US Person, such US Person must be an "accredited investor" and a "qualified purchaser" as such terms are defined under applicable US Federal securities laws and, unless the Management Company determines otherwise either generally or in any particular case, who is generally exempt for US Federal taxes.

Without limiting the generality of the foregoing, unless the Management Company otherwise determines either generally or in any particular case (including with regard to a Sub-fund) the Fund will not accept any subscriptions from, and Units may not be transferred to, any Investor, whether or not a US Person, who is subject to Title 1 of ERISA or the prohibited



transactions provisions of Section 4975 of the Code or who qualifies as a Benefit Plan Investor. For the above purposes, a Benefit Plan Investor is a benefit plan investor as defined in regulations issued by the US Department of Labor, being employee benefit plans as defined in Section 3(3) of ERISA (whether or not subject to Title 1 of ERISA), plans described in Section 4975(e)(i) of the Code, government plans, Church plans, foreign pension plans, insurance company general and separate accounts and entities the underlying assets of which include plan assets.

## **12.1 FATCA provision**

Capitalised terms used in this section and not otherwise defined in this Issuing Document should have the meaning as set forth in the FATCA Law, unless provided otherwise herein.

The Fund may be subject to the so-called FATCA legislation which generally requires reporting to the Internal Revenue Service (**IRS**) of non-US financial institutions that do not comply with FATCA and direct or indirect ownership by US persons of non-US entities. As part of the process of implementing FATCA, the US government has negotiated intergovernmental agreements with certain foreign jurisdictions which are intended to streamline reporting and compliance requirements for entities established in such foreign jurisdictions and subject to FATCA.

Luxembourg has entered into a Model I Intergovernmental Agreement (**IGA**) implemented by the FATCA Law, which requires Financial Institutions located in Luxembourg to report, when required, information on Financial Accounts held by Specified US Persons, if any, to the Luxembourg tax authorities.

Under the terms of the FATCA Law, the Fund is likely to be treated as a Luxembourg Reporting Financial Institution.

This status imposes on the Fund the obligation to regularly obtain and verify information on all of its Investors. On the request of the Management Company, each Investor shall agree to provide certain information, including, in the case of a passive Non-Financial Foreign Entity (**NFFE**), information on the Controlling Persons of such NFFE, along with the required supporting documentation. Similarly, each Investor shall agree to actively provide to the Management Company within thirty (30) days any information that would affect its status, as for instance a new mailing address or a new residency address.

FATCA may require the Management Company to disclose the names, addresses and taxpayer identification number (if available) of its Investors as well as information such as account balances, income and gross proceeds (non-exhaustive list) to the Luxembourg tax authorities for the purposes set out in the FATCA Law. Such information will be relayed by the Luxembourg tax authorities to the Internal Revenue Service.

Additionally, the Management Company is responsible for the processing of personal data and each Investor has a right to access the data communicated to the Luxembourg tax

authorities and to correct such data (if necessary). Any data obtained by the Management Company are to be processed in accordance with the amended Luxembourg law of 2 August 2002 on the protection of persons with regard to the processing of personal data.

Although the Fund will attempt to satisfy any obligation imposed on it to avoid imposition of FATCA withholding tax, no assurance can be given that the Fund will be able to satisfy these obligations. If the Fund becomes subject to a withholding tax or penalties as result of the FATCA regime, the value of the Units held by the Investors may suffer material losses. The failure for the Management Company to obtain such information from each Investor and to transmit it to the Luxembourg tax authorities may trigger the 30% withholding tax to be imposed on payments of U.S. source income and on proceeds from the sale of property or other assets that could give rise to U.S. source interest and dividends as well as penalties.

Any Investor that fails to comply with the Management Company's documentation requests may be charged with any taxes and/or penalties imposed on the Fund as a result of such Investor's failure to provide the information and the Fund may, in its sole discretion, redeem the Units of such Investor.

Investors who invest through intermediaries are reminded to check if and how their intermediaries will comply with this U.S. withholding tax and reporting regime.

Investors should consult a U.S. tax advisor or otherwise seek professional advice regarding the above requirements.

## 12.2 CRS provision

Capitalised terms used in this section and not otherwise defined in this Issuing Document should have the meaning as set forth in the CRS Law, unless provided otherwise herein.

Luxembourg signed the OECD's multilateral competent authority agreement (**Multilateral Agreement**) to automatically exchange information under the CRS. Under this Multilateral Agreement, Luxembourg automatically exchanges financial account information with other participating jurisdictions since 1 January 2016.

Under the terms of the CRS Law, the Fund is likely to be treated as a Luxembourg Reporting Financial Institution. As such, since 30 June 2017 and without prejudice to other applicable data protection provisions, the Fund is required to annually report to the Luxembourg tax authorities personal and financial information related, inter alia, to the identification of, holdings by and payments made to (i) certain Investors qualifying as Reportable Persons as per the CRS Law and (ii) Controlling Persons of certain non-financial entities (**NFEs**) which are themselves Reportable Persons. This information, as exhaustively set out in Annex I of the CRS Law (the **Information**), will include personal data related to the Reportable Persons.

The Fund's ability to satisfy its reporting obligations under the CRS Law will depend on each Investor providing the Management Company with the Information, along with the required supporting documentary evidence. In this context, the Investors are hereby informed that, as data controller, the Management Company will process the Information for the purposes as set out in the CRS Law.

Investors qualifying as passive NFEs undertake to inform their Controlling Persons, if applicable, of the processing of their Information by the Management Company.

Additionally, the Management Company is responsible for the processing of personal data and each Investor has a right to access the data communicated to the Luxembourg tax authorities and to correct such data (if necessary). Any data obtained by the Management Company are to be processed in accordance with the amended Luxembourg law dated 2 August 2002 on the protection of persons with regard to the processing of personal data.

The Investors are further informed that the Information related to Reportable Persons within the meaning of the CRS Law will be disclosed to the Luxembourg tax authorities annually for the purposes set out in the CRS Law. The Luxembourg tax authorities will, under their own responsibility, eventually exchange the reported information to the competent authority of the Reportable Jurisdiction. In particular, Reportable Persons are informed that certain operations performed by them will be reported to them through the issuance of statements, and that part of this information will serve as a basis for the annual disclosure to the Luxembourg tax authorities.

Similarly, the Investors undertake to inform the Management Company within thirty (30) days of receipt of these statements should any included personal data be not accurate. The Investors further undertake to immediately inform the Management Company of, and provide the Management Company with all supporting documentary evidence of any changes related to the Information after occurrence of such changes.

Any Investor that fails to comply with the Management Company's Information or documentation requests may be held liable for penalties imposed on the Fund as a result of such Investor's failure to provide the Information or subject to disclosure of the Information by the Management Company to the Luxembourg tax authorities and the Fund may, in its sole discretion, redeem the Units of such Investors.

### **13 REDEMPTION OF UNITS**

Investors may under certain conditions request the redemption of all or part of their Units in accordance with the redemption terms set in respect of each Sub-fund as set forth in more detail in the relevant Supplement to the Issuing Document.

Redemption requests should contain the following information (if applicable): the identity and address of the Investor requesting the redemption, the number of Units to be redeemed, the relevant Class, and/or Sub-Class and Series, and the relevant Sub-fund. All necessary

documents (including without limitation any anti-money laundering documentation) to complete the redemption should be enclosed with such request.

Notice of redemption requests may be given in writing by facsimile, FTP, Swift or post to the Administrative Agent. Redemption proceeds shall be paid in accordance with the redemption payment instructions set out in the original Subscription Form.

At each Investor's request made in writing by facsimile, FTP, Swift or post, redemption proceeds may be paid to a recognised bank or credit institution different to the one specified in the original Subscription Form of the relevant Investor.

With respect to each redemption request received by the Administrative Agent, the Administrative Agent shall consult the Management Company and the AIFM in order to determine the conditions under which such redemption request will be satisfied.

With respect to a Sub-fund, a minimum holding requirement may be specified in the relevant Supplement to the Issuing Document. If such minimum holding requirement is specified in the relevant Supplement to the Issuing Document in such Sub-fund and if, as a result of any request for redemption, the aggregate Net Asset Value of the Units held by any Investor in a Class or a Sub-Class in a Sub-fund would fall below the minimum holding requirement so specified, the Management Company may treat such request as a request to redeem the entire interest of such Investor in such Class or Sub-Class. At the Management Company's discretion, the Management Company reserves the right to transfer any existing Investor who falls below the minimum holding requirement (if any) for one (1) Class or Sub-Class into another appropriate Class or Sub-Class without charge.

Investors whose requests for redemption are accepted will have their Units redeemed pursuant to the provisions set forth in the relevant Supplement to the Issuing Document.

Unless otherwise set forth in the relevant Supplement to the Issuing Document, Units will be redeemed at a price equal to the Net Asset Value per Unit of the relevant Class, Sub-Class and Series (if applicable) within the relevant Sub-fund as at the relevant Redemption Day, subject to any such adjustments as set forth in the relevant Supplement to the Issuing Document (the **Redemption Price**). The payment of the Redemption Price shall be made within such number of Business Days, as specified in the relevant Supplement to the Issuing Document, after the relevant Redemption Day. Payment will generally be made in cash by wire transfer save in exceptional circumstances, as determined by the Management Company, in which case a redemption in kind may be made in accordance with the Management Regulations.

The Redemption Price will be paid in the Base Currency of the relevant Class or Sub-Class, if any, or in the Base Currency of the relevant Sub-fund or in any other freely convertible currency specified by the Investor. In the last case, any currency conversion costs shall be borne by the Investor. The Redemption Price may be higher or lower than the price paid at the time of subscription or purchase.

Units in any Sub-fund will not be redeemed if the calculation of the Net Asset Value per Unit in such Sub-fund is suspended in accordance with section 19. of this Issuing Document.

If in relation to any Valuation Point, redemption requests relate to more than a certain percentage of Units in issue or to more than a certain percentage of the Net Asset Value in a specific Sub-fund, the Management Company may decide that part or all of such redemption requests will be automatically deferred proportionally for such period as the Management Company considers to be in the best interest of the Sub-fund as further set forth in the Supplement to the Issuing Document. With respect to each Redemption Day, each Investor will not be authorized to submit a redemption request for an amount greater than the limitation specified in the relevant Supplement to the Issuing Document, except if it is expressly accepted by the Management Company. If an Investor submits a Redemption Notice for an amount greater than the limitation specified in the relevant Supplement, the amount indicated in such Redemption Notice will be deemed to be such limitation specified in the relevant Supplement and the portion of the redemption request in excess of such limitation will not be automatically deferred to the next Valuation Point. The limitations will be applied *pro-rata* (including, for the avoidance of doubt, redemption requests of Investors which have not been satisfied in full on the previous Valuation Point(s) and which have been automatically deferred to the next Valuation Point(s)) unless otherwise decided by the Management Company.

The Management Company shall furthermore cause the redemption of the Units of any Investor, if such Investor ceases to meet the conditions as set forth in the Issuing Document (including the relevant Supplement), in particular (but without limitation) if, in the Management Company's opinion, (i) such Investor holds Units directly or beneficially in breach of any law or requirement of any country, governmental or regulatory authority or is otherwise unable to provide the Administrative Agent with any documentation or information that it may reasonably request from time to time or (ii) the existence of such person as an Investor causes or threatens to cause the Fund or the Sub-fund to incur any liability to taxation or to suffer any pecuniary or other disadvantage in any jurisdiction which it would otherwise not have expected to incur or suffer or (iii) such Investor is not a Well-Informed Investor anymore or (iv) for any other reason in their absolute discretion.

No redemption (as described above) may be made as a result of which the capital of the Fund would fall below the minimum capitalisation required by Luxembourg law.

## **14 CONVERSION OF UNITS**

The conversion of Units in a given Sub-fund into Units of another Sub-fund may be authorised on a Sub-fund by Sub-fund basis as set forth under the relevant Supplement to the Issuing Document.

The conversion of Units in a given Unit Class into Units of another Unit Class within the same Sub-fund may be authorised on a Sub-fund by Sub-fund basis as set forth under the relevant Supplement to the Issuing Document.

Upon the creation of additional Sub-funds, Investors may have the right, subject to the provisions hereinafter specified as may be amended from time to time and subject to any limitations set out in relation to one (1) or more Sub-funds in the relevant Supplement to the Issuing Document, to convert Units from one (1) Sub-fund into Units of another Sub-fund within the same Class or Sub-Class, if relevant.

The rate at which Units of any Class, Sub-Class and Series in any Sub-fund shall be converted will be determined by reference to the respective Net Asset Value of the relevant Units calculated as of the same specific Valuation Point following receipt of the documents referred to below by a time defined in the relevant Supplement to the Issuing Document.

A conversion fee may be charged by the Management Company to the benefit of the relevant Sub-fund. Such conversion fee shall not exceed the difference between the respective maximum charges, if any, for the subscription of Units of the two (2) Sub-funds and/or Unit Classes concerned.

A conversion of Units of one (1) Sub-fund for Units of another Sub-fund will be treated as a redemption of Units and a simultaneous subscription of Units. A converting Investor may, therefore, realise a taxable gain or loss in connection with the conversion under the laws of the country of the Investor's citizenship, residence or domicile.

All terms and notices regarding the redemption of Units shall equally apply to the conversion of Units.

No conversion of Units will be effected until the following documents have been received at the registered office of the Administrative Agent:

- a duly completed conversion request form or other written notification acceptable to the Administrative Agent; and
- the transfer form duly completed together with any other documentation that may be requested by the Administrative Agent from time to time.

Written confirmations of registered Units will be sent to Investors within twenty (20) Business Days after the publication of the relevant Valuation Point, together with the balance resulting from such conversion, if any.

In converting Units of a Sub-fund, respectively a Unit Class, for Units of another Sub-fund, respectively Unit Class, an Investor must meet applicable minimum investment requirements imposed by the acquired Sub-fund, Class or Sub-Class, if any.

If, as a result of any request for conversion, the aggregate Net Asset Value of the Units held by the converting Investor in a Class or Sub-Class or Sub-fund fall below the minimum holding requirement (if any) indicated in the relevant Supplement to the Issuing Document, the Management Company may treat such request as a request to convert the entire holding

of such Investor in such Class, Sub-Class or Sub-fund. At the Management Company's discretion, the Management Company reserves the right to transfer any existing Investor who falls below the minimum holding requirement (if any) for a Class or Sub-Class, if any, into another appropriate Unit Class without charge.

Units of any Class or Sub-Class, if any, in any Sub-fund will not be converted in circumstances where the calculation of the Net Asset Value per Unit of such Sub-fund is suspended by the Management Company pursuant to the Management Regulations.

## 15 SIDE POCKETS

It cannot be excluded that certain assets of a Sub-fund or, within such Sub-fund, a relevant Pool may become illiquid or impossible to value due to circumstances of fact that cannot be foreseen at the time these assets are acquired. As a result of such illiquidity and the risks implicit therein, the AIFM will no longer be in a position to liquidate the asset at a reasonable value or to prepare or obtain a fair valuation of the relevant asset. Any such incident may further have an impact on the other assets in the relevant Sub-fund or Pool, hence leading to an impossibility to exit or liquidate the relevant investment or to determine the Net Asset Value of the relevant Sub-fund and/or Pool.

In order to remedy the potential consequences of any such illiquidity, the Management Company and the AIFM shall be entitled to use all means at their disposal, acting each time in the best interests of all Investors in the relevant Sub-fund or Pool. The AIFM, may, *inter alia*, in agreement with the Management Company, separate any illiquid asset from other liquid investments by creating a separate fully segregated asset sub-pool (the **Side-Pocket**) within the relevant Sub-fund or Pool and by allocating the illiquid asset thereto.

Unless otherwise foreseen in the relevant Supplement, any Side-Pocket allocation will be realised by means of a Unit conversion as foreseen under section 14 of this Issuing Document. Also, unless otherwise foreseen in the relevant Supplement, Units in a Side Pocket will not be redeemable at the request of an Investor.

Once an investment enters a Side Pocket, only the present Investors in the relevant Sub-fund or Pool will be entitled to receiving Units of a specific Class, Sub-Class and Series, as the case may be, representing their *pro rata* co-ownership interest in the relevant investment(s) and future Investors will not participate in the relevant asset(s). Any such Class, Sub-Class or Series shall be closed for subscriptions.

Unless otherwise provided in the relevant Supplement, when the assets allocated to any Side Pocket are able to be properly valued and/or become liquid again, the AIFM may either realise them, each time acting in the best interest of the Investors participating therein or, transfer them back into the relevant Sub-fund or Pool, or any successor Sub-fund or Pool by means of a conversion as foreseen under section 14 of this Issuing Document.

For the avoidance of doubt and throughout the duration of any Side-Pocket arrangement, fees and expenses will continue to accrue in respect of the relevant Side-Pocket.

Unless otherwise determined in the relevant Supplement, the basis for the assessment of fees shall however be the value of the asset either upon the realisation thereof or its retransfer. Performance and other fees, if any, may thus only be calculated and allocated when a liquidity or valuation event occurs.

The fees of the Management Company, Administrative Agent, Depositary and any other Services Provider will continue to accrue during the term of the Side Pocket existing in respect of each asset and will be calculated by reference to the value thereof upon a liquidity or valuation event, as such terms are defined in the relevant Supplement.

The creation of any Side Pocket will be subject to the prior communication and authorisation by the CSSF. Investors will be duly informed of the creation and maintenance of any Side-Pocket.

## **16 CONSOLIDATION AND LIQUIDATION OF SUB-FUNDS**

Sub-funds may be created for an undetermined period or for a fixed period as provided for in the relevant Supplement to this Issuing Document. Where a Sub-fund is created for a fixed period, it will terminate automatically on its maturity date provided for in the relevant Supplement to the Issuing Document.

The Management Company may decide to compulsorily redeem all the Units of, and thereby liquidate, a Sub-fund if its net assets have decreased to, or have not reached, an amount determined by the Management Company, in consultation with the AIFM, to be the minimum level for such Sub-fund to be operated in an economically efficient manner or if a change in circumstances relating to the Sub-fund concerned would justify such liquidation.

Investors of the relevant Sub-fund will be notified by the Management Company of any decision to liquidate the relevant Sub-fund prior to the effective date of the liquidation and the notice will indicate the reasons for, and the procedures applicable in respect of the liquidation.

Unless the Management Company otherwise decides in the interest of, or to keep equal treatment between the Investors, the Investors of the Sub-fund concerned may request the redemption of their Units.

Redemption proceeds which have not been claimed by Investors upon the compulsory redemption will be deposited in escrow with the *Caisse des Consignations* in Luxembourg in accordance with applicable laws and regulations. Proceeds not claimed within the statutory period will be forfeited in accordance with applicable laws and regulations.

Under the same circumstances as provided above, the Management Company may decide



to terminate one (1) Sub-fund and contribute its assets into another Sub-fund or into another collective investment scheme. The Management Company may resolve to amalgamate two (2) or more Sub-funds if it believes that such a course of action is in the best interest of the Investors of the relevant Sub-funds. Affected Investors will be notified of any such decision and relevant information in relation to the new Sub-fund provided. Notice will be provided at least one (1) month before the date on which the amalgamation becomes effective in order to enable Investors to request that their Units be redeemed before the amalgamation is completed.

Where assets are to be contributed to another collective investment undertaking, the amalgamation will be binding only on Investors in the relevant Sub-fund who will expressly consent to the amalgamation. Where the Management Company determines that the decision should be put to investors for their approval, the decision to liquidate or to merge a Sub-fund may instead be taken at a meeting of Investors of the relevant Sub-fund. At this relevant meeting, no quorum will be required and any decision to liquidate or to merge must be approved by Investors holding at least a simple majority of the Units present or represented. Investors will be notified by the Management Company of any resolution to proceed with the amalgamation at least one (1) month before the effective date of the liquidation or amalgamation of the Sub-fund in order to enable Investors to request the redemption or the switching of their Units before the liquidation or amalgamation of the Sub-fund takes place.

## 17 CO-MANAGEMENT AND POOLING

To ensure effective management, the AIFM may be authorised to manage all or part of the assets of one (1) or more Sub-funds with other Sub-funds (the technique of pooling) or to co-manage all or part of the assets, except for a cash reserve, if necessary, of one (1) or more Sub-funds with assets of other Luxembourg undertakings for collective investment or of one (1) or more sub-funds of other Luxembourg undertakings for collective investment (hereinafter called **Party(ies) to co-managed assets**) for which the Depositary was appointed as the depositary bank. These assets will be managed in accordance with the respective investment policy of the Parties to co-managed assets, each of which pursuing identical or comparable objectives. Parties to co-managed assets will only participate in co-managed assets as stipulated in their respective issuing document and in accordance with their respective investment restrictions.

Each Party to co-managed assets will participate in co-managed assets in proportion to the assets contributed thereto by it. Assets will be allocated to each Party to co-managed assets in proportion to its contribution to co-managed assets. The entitlements of each Party to co-managed assets apply to each line of investment in such co-managed assets.

Such co-managed assets will be formed by the transfer of cash or, if necessary, other assets from each Party to co-managed assets. Thereafter, the AIFM may be authorised to regularly make subsequent transfers to co-managed assets. The assets can also be transferred back to a Party to co-managed assets for an amount not exceeding the participation of that Party to co-managed assets.

Any distributions deriving from co-managed assets will accrue to the Parties to co-managed assets in proportion to their respective investments. Such distributions may be kept by the Party to co-managed assets or reinvested in the co-manage assets.

All charges and expenses incurred in respect of co-managed assets will be applied to these assets. Such charges and expenses will be allocated to each Party to co-managed assets in proportion to its respective entitlement in the co-managed assets.

If the investment restrictions of a Sub-fund are infringed, when such a Sub-fund participates in co-management despite the AIFM having complied with the investment restrictions applicable to the co-managed assets in question, the AIFM shall reduce the asset in question proportionally to the participation of the relevant Sub-fund in the co-managed assets or, if necessary, to reduce its participation in the co-managed assets so that the investment restrictions of that Sub-fund are observed.

On the liquidation of the Fund or when the AIFM decides, without prior notice, to withdraw the participation of the Fund or a Sub-fund from co-managed assets, the relevant co-managed assets will be allocated to the other Parties to such co-management proportionally to the value of their respective participation in such co-management. Prospective Investors should note that such co-managed assets are employed solely to ensure effective management and on the basis that all Parties to such co-management engage the same depositary bank. Co-managed assets are not distinct legal entities and are not directly accessible to prospective Investors. However, the assets and liabilities of each Sub-fund will be constantly separated and identifiable.

## **18 CALCULATION OF THE NET ASSET VALUE**

### **18.1 Principles of calculation of the NAV**

The Net Asset Value of the Fund and per Unit will be determined by the Administrative Agent under the supervision of the AIFM on each Valuation Point. The AIFM assures that a proper and independent valuation of the assets of the Fund is performed in accordance with article 17 of the AIFM Law and the Management Regulations.

Every decision in calculating the Net Asset Value of the Fund and per Unit taken by the AIFM or by any bank, company or other organisation which the AIFM may appoint for the purpose of calculating the Net Asset Value, shall be final and binding on the Fund and on its Investors.

In the event that the AIFM becomes aware of a calculation error with an impact on the NAV in excess of one (1) per cent, the AIFM shall immediately notify (in writing) the Management Company and the Depositary hereof further submitting a corrective action plan addressing the steps to be taken to cure the error(s) and, to the extent necessary or required, to put in place such additional safeguards necessary to avoid such error(s) in the future. The Management Company shall notify the same to the CSSF as and when required.

The corrective action plan shall specify the steps which have been or are proposed to be taken :

- in order to identify those Investors which may have been affected by the error(s);
- in order to recalculate the NAVs which have been applied to subscription or redemption requests received during the period starting on the date on which the error became significant and the date on which it was corrected ("the error period");
- in order to determine, on the basis of the recalculated NAVs, the amounts which have to be repaid to the Fund and the amounts payable by way of indemnity to Investors who have suffered a loss as a result of the error(s);
- in order to notify the error to the Investors who have to be indemnified and inform them on the steps that will be implemented in order to do so.

If, following a NAV calculation error, the indemnification amount does not exceed twenty-five thousand euro (EUR 25,000) and the amount to be reimbursed to an Investor does not exceed two thousand five hundred euro (EUR 2,500), no corrective action plan as detailed here above needs to be submitted to the CSSF. In such a case, the CSSF merely has to be informed of the occurrence and corrective measures, including the indemnification of Investors that must be undertaken.

Investors who have benefitted from the error are hereby informed that the Management Company or its relevant delegate may request the repayment of any such benefit received less any charges incurred by the Investor as a result of the erroneous payment and the subsequent repayment.

To the extent that undertakings for collective investment governed by the SIF Law do not require a promoter, the indemnification to be made in respect of errors committed may only be sought from the Management Company, the AIFM, the Administrative Agent or the Depositary.

Investors are hereby informed that pending the outcome of the determination of the responsible party, any indemnification payments are suspended. Investors are furthermore informed that the costs caused by the correction operations of a calculation error, including the cost of the external auditor, cannot be charged to the assets of the Fund, respectively Sub-fund. Instead, these costs will have to be supported by the party ultimately held liable for the calculation error.

The above rules shall apply *in lieu* of CSSF Circular 02/77.

The Net Asset Value of the Fund and per Unit shall be exclusively expressed in the Base Currency of the Fund, a Sub-fund, a Unit Class or a Sub-Class as the case may be.

The AIFM has adopted the methodology of valuing the Fund's investments at fair value in accordance with the valuation guidelines described below but may, in its discretion, permit some other method of valuation to be used, if it considers that such valuation better reflects the fair value of any asset of the Fund.

The percentage of the total value of the net assets attributed to each Class of Units, and with each Class to the relevant Sub-Classes in that Sub-fund and the total number of Units issued in each Class and Sub-Class respectively and the total number of Units issued in the same Sub-fund and will subsequently be adjusted in accordance with dividend distributions, conversions and redemptions of Units.

## **18.2 Methods of calculation of the NAV**

Information or knowledge of events received after the Valuation Point will only be taken into account on a prospective basis in subsequent NAV calculations and may form a reconciling item with the annual audited financial statements of the Fund.

Adequate provisions will be made, at the level of a Sub-fund, for expenses to be borne by each Sub-fund and off-balance-sheet commitments may possibly be taken into account on the basis of fair and prudent criteria.

The value of all assets and liabilities not expressed in the Base Currency of the Fund, a Sub-fund, a Class or Sub-Class will be converted into the Base Currency of the Fund, the Sub-fund, the Class or the Sub-Class at rates of exchange determined in good faith by or under procedures established by the AIFM.

For the purpose of determining the Net Asset Value of the Fund, the net assets attributable to each Sub-fund shall, if not denominated in the Base Currency of the Fund, be converted into in the Base Currency of the Fund and the Net Asset Value shall be the aggregate of the net assets of all the Sub-funds. The Management Company shall prepare consolidated accounts in the Base Currency of the Fund.

The AIFM, in its discretion, may permit some other method of valuation to be used if it considers that such valuation better reflects the fair value of any asset of the Fund.

The Net Asset Value of the Fund or of a given Sub-fund is equal to the total assets of the Fund and the Sub-fund respectively less the liabilities of the Fund and the Sub-fund respectively.

I. The assets of the Fund and each Sub-fund shall *inter alia* include:

1. all cash in hand, receivable or on deposit, including any interest accrued thereon;
2. all bills and notes payable on demand and any account due (including the

proceeds of securities sold but not yet collected);

3. all securities, units, bonds, shares, time notes, debentures, debenture stocks, subscription rights, warrants, options, and other securities, money market instruments and similar assets owned or contracted for by the Fund, if any;
4. all derivatives, financial instruments and other similar assets, if any;
5. all interest accrued on any interest-bearing assets owned by the Fund except to the extent that the same is included or reflected in the principal amount of such asset;
6. the preliminary expenses of the Fund, including the cost of issuing Units of the Fund, insofar as the same have not been written off; and
7. all other assets of any kind and nature including expenses paid in advance.

II. The value of such assets shall be determined as follows:

1. money market instruments not listed or dealt in on any Regulated Market, stock exchange in an Other State or any Other Regulated Market and with remaining maturity of ninety (90) days or less will be valued by the amortised cost method. The AIFM will review the valuation policy of the money market instruments with remaining maturity of ninety (90) days or less at such intervals as the AIFM deem appropriate, in order to determine whether the market value of such money market instruments, calculated by using available market quotations or other reputable sources, deviates from the approximate market value calculated in accordance with the amortised cost method of valuation and, if so, whether such deviation exists, the AIFM shall establish the value of money market instruments with remaining maturity of ninety (90) days or less by using available market quotations;
2. money market instruments not listed or dealt in on any Regulated Market, stock exchange in an Other State or any Other Regulated Market and with remaining maturity of more than ninety (90) days will be valued using available market quotations;
3. any cash in hand or on deposit, notes payable on demand, bills and accounts receivable, prepaid expenses, cash dividends, interests declared or accrued as aforesaid and not yet received shall be valued at their full nominal value, unless in any case the same is unlikely to be paid or received in full, in which case the AIFM may value these assets with a discount he may consider appropriate to reflect the true value thereof;
4. the liquidating value of options and forwards contracts not traded on Regulated Markets or on Other Regulated Markets shall mean their net

liquidating value determined, pursuant to the policies established by the AIFM, on a basis consistently applied for each different kind of contracts. The liquidating value of futures, forward or options contracts traded on exchanges or on other regulated markets shall be based upon the last available settlement prices of these contracts on the relevant exchange and regulated market on which the particular contract is traded, provided that if a future, forward or options contract could not be liquidated on the relevant Valuation Point, the basis for determining the liquidating value of such contract shall be such value as the AIFM may deem fair and reasonable; and

5. all other assets, securities and derivatives will be valued at fair market value as determined pursuant to the procedures and methods set from time to time by the AIFM, or in accordance with such further provisions set forth in the relevant Supplement to the Issuing Document as the case may be. The AIFM is authorised to apply other adequate valuation principles if the aforementioned valuation criteria appear impossible or inappropriate due to extraordinary circumstances or events.

III. The liabilities of the Fund shall include:

1. all loans, bills and accounts payable;
2. all accrued interest on loans to the Fund (including accrued fees for commitment for such loans);
3. all accrued or payable expenses (including management fees and performance fees, auditor fees, legal fees and other administrative expenses, like custody fees and administration fees);
4. all known liabilities, present and future, including all matured contractual obligations for payments of money;
5. an appropriate provision for future taxes based on capital and income to the Valuation Point, as determined from time to time by the AIFM, and other reserves (if any) authorised and approved by the AIFM, as well as such amount (if any) as the AIFM may consider to be an appropriate allowance in respect of any contingent liabilities of the Fund;
6. all other liabilities of the Fund of whatsoever kind and nature reflected in accordance with Luxembourg GAAP. In determining the amount of such liabilities the AIFM shall take into account all expenses payable by the Fund which shall comprise formation expenses, excluding any general overheads, others, including performance related fees, fees and expenses payable to its Service Providers, as well as any other agent of the Fund, the remuneration of the directors of the Management Company and their reasonable out-of-pocket expenses, insurance coverage and reasonable travelling costs in

connection with board meetings of the Management Company, fees and expenses for legal and auditing services, any fees and expenses involved in registering and maintaining the registration of the Fund with any governmental agencies or stock exchanges in the Grand Duchy of Luxembourg and reporting and publishing and distributing expenses, including the cost of preparing, translating, printing, depositing and distributing offering documents, agreements and other documents concerning the Fund, explanatory memoranda, periodical reports or registration statement, and the costs of any reports and notifications to Investors, the cost of convening and holding Investors' meetings and board meetings of the Management Company all taxes, duties, governmental and similar charges, and all other operating expenses, including the cost of buying and selling assets, the cost of publishing the issue and redemption prices, interest, bank charges and brokerage, postage, telephone and telex, the fees for the Fund's auditor and legal advisers and all other similar expenses including all litigations expenses incurred in connection with the conduct of the Fund business and the offering of Units.

IV. For the purpose of the calculation of the Net Asset Value:

1. Units of the Fund to be redeemed shall be treated as existing and taken into account until immediately after the close of business on the Valuation Point, and from such time and until paid, the redemption price therefore shall be deemed to be a liability of the Fund and the relevant Sub-fund respectively;
2. all investments, cash balances and other assets of the Fund denominated otherwise than in Base Currency, shall be valued after taking into account the market rate or rates of exchange in force at the date and time for determination of the Net Asset Value per Unit; and
3. effect shall be given on any Valuation Point to any purchases or sales of assets contracted for by the Fund on such Valuation Point, to the extent practicable.

## **19 SUSPENSION OF THE CALCULATION OF THE NET ASSET VALUE**

The Management Company, in consultation with the AIFM, may temporarily suspend the determination of the Net Asset Value per Unit of any Sub-fund and/or the issue, conversion and redemption of its Units in respect of a given Sub-fund:

- (a) during any period when any of the principal Regulated Market, stock exchange in an Other State or Other Regulated Market on which any substantial portion of the investments of the Fund attributable to such Sub-fund from time to time is quoted or dealt in is closed otherwise than for ordinary holidays, or during which dealings therein are restricted or suspended, provided that such restriction or suspension

affects the valuation on the investments of the Fund attributable to a Sub-fund quoted thereon; or

- (b) during the existence of any state of affairs which constitutes an emergency in the opinion of the AIFM as a result of which disposals or valuation of assets owned by the Fund attributable to such Sub-fund would be impracticable or might seriously prejudice the interests of the holders of the Units in the relevant Sub-fund or holders of Units as a whole; or
- (c) during the existence of any state of affairs which, in the opinion of the AIFM, constitutes an occurrence of an Insured Event as a result of which disposal or valuation of assets owned by the Fund would not be reasonably practicable or might seriously prejudice the interests of the Investors holding Units in the relevant Class or Sub-Class or Investors as a whole; or
- (d) during any breakdown in the means of communication normally employed in determining the price or value of any of the investments of such Sub-fund or the current price or values on any stock exchange or other market in respect of the assets attributable to such Sub-fund; or
- (e) when for any reason the prices of any investments owned by the Fund attributable to any Sub-fund cannot promptly or accurately be ascertained;
- (f) when the proportion of assets of the Fund valued under the "Mark-to-Model Valuation" represents a significant part of the total assets of the Fund (as determined by the AIFM);
- (g) during any period when the Fund is unable to repatriate funds for the purpose of making payments on the redemption of the Units of such Sub-fund or during which any transfer of funds involved in the realisation or acquisition, of investments or payments due on redemption of Units cannot in the opinion of the AIFM be effected at normal rates of exchange; and
- (h) during any period when currency conversions which will or may be involved in the realisation of assets owned by the Fund or in the payment for assets cannot, in the opinion of the AIFM, be carried out at the normal rates of exchange.

Any such suspension shall be published, if appropriate, by the Management Company and shall be notified to Investors having made an application for subscription and redemption of Units for which the calculation of the Net Asset Value has been suspended.

Such suspension as to any Sub-fund shall have no effect on the calculation of the Net Asset Value per Unit, the issue and redemption of Units of any other Sub-fund, unless said other Sub-fund is also affected.

Any request for subscription or redemption shall be irrevocable except in the event of a



suspension of the calculation of the Net Asset Value, in which case Investors may give notice that they wish to withdraw their application. If no such notice is received by the Fund, such application will be dealt with as of the first Valuation Point, as determined for each relevant Sub-fund, following the end of the period of suspension.

The fees of the Management Company, Administrative Agent, Depositary and any other Services Provider will continue to accrue during the period of suspension and will be calculated by reference to the value thereof upon a liquidity or valuation event, as such terms will be defined in the relevant Supplement.

## **20 DISTRIBUTION POLICY**

Within each Sub-fund, Units may be issued as capitalisation Units and/or as distribution Units. The features of the Units available within each Sub-fund are set out in the relevant Supplement to the Issuing Document.

In any event, no distribution may be made if, as a result, the Net Asset Value of the Fund would fall below EUR 1,250,000 or its USD equivalent amount.

Distributions not claimed within five years of their due date will lapse and revert to the relevant Class or Sub-Class within the relevant Sub-fund.

No interest shall be paid on a distribution declared by the Management Company and kept by it at the disposal of its beneficiary.

Any distributions of Sub-fund cash proceeds, either during the life of a given Sub-fund, or upon its liquidation, will be made at the sole discretion of the Management Company and based on the provisions as set forth in the relevant Supplement to the Issuing Document.

## **21 LEVERAGE RESTRICTIONS AND SECURITIES LENDING**

The AIFM may use direct and indirect financial leverage, in accordance with market practice and regulation on a Sub-fund by Sub-fund basis only, in accordance with the terms and conditions provided for in the relevant Supplement.

Unless provided otherwise in the relevant Supplement to the Issuing Document, the AIFM may enter into securities lending transactions for the account of a specific Sub-fund.

## **22 COSTS AND EXPENSES**

Unless otherwise provided for in the relevant Supplement to the Issuing Document, as it may be updated from time to time, any costs and expenses incurred during the launch,

operation or liquidation of the Fund and any Sub-fund respectively, shall be allocated as set forth in the following sections.

## **23 COSTS BORNE BY THE FUND AND ITS SUB-FUNDS**

### **23.1 General**

The Fund pays out of the assets of the relevant Sub-funds all expenses payable by the Fund which shall include but not be limited to formation expenses, fees (investment management fees and performance, if any) payable to any consultant, portfolio manager, assets manager, fees and expenses payable to its auditors and accountants, prime broker, depository, administrative agent (and its correspondents), listing agent, any permanent representatives in places of registration, as well as any other agent employed by the Fund, insurance coverage related to their functions *vis-à-vis* the Fund, fees and expenses for legal and auditing services, any fees and expenses involved in registering and maintaining the registration of the Fund with any governmental agencies or stock exchanges in the Grand Duchy of Luxembourg and in any other country, reporting and publishing expenses, including the costs of preparing, printing and distributing Issuing Document, explanatory memoranda, periodical reports or registration statements and the costs of any reports to Investors, all taxes, duties, governmental and similar charges, and all other operating expenses, the costs for the publication of the issue and redemption prices, including the cost of buying and selling assets, interest, bank charges and brokerage, postage, telephone and telex and the costs of appointing legal advisors, counter-valuation agents and other agents appointed from time to time to perform certain duties in respect of the assets of the Fund. The Fund may accrue administrative and other expenses of a regular or recurring nature based on an estimated amount rateably for yearly or other periods.

Charges relating to the creation of a new Sub-fund shall be written off over a period not exceeding five years against the assets of that Sub-fund and in such amounts as determined by the Management Company on an equitable basis. The newly created Sub-fund shall not bear a prorated share of the costs and expenses incurred in connection with the formation of the Fund and the initial issue of Units, which have not already been written off at the time of the creation of the new Sub-fund.

Charges incurred in respect of the creation of Pools will each time be allocated to the relevant Pool(s).

### **23.2 Formation costs**

The AIFM shall bear the formation expenses of the Fund and the initial Sub-fund, including the costs of drawing up and printing the Issuing Document.

The filing costs with administrative authorities and any other costs pertaining to the setting

up and launching of the initial Sub-fund will be borne by the latter. These expenses will be amortised on a straight line basis over a period of up to five (5) years from the date on which the initial Sub-fund commenced business. The Management Company may, in its absolute discretion, shorten the period over which such costs and expenses are amortised.

The expenses incurred by the Management Company in relation to the launch of additional Sub-funds will be borne by and payable out of the assets of the relevant Sub-funds and will be amortised on a straight line basis over a period of up to five (5) years from the launch date of the relevant Sub-fund, unless the Management Company shortens this period.

### **23.3 Management Fee**

The Management Company may be entitled to receive a management fee in respect of a given Sub-fund. The terms and conditions thereof shall be set in respect of each Sub-fund in the relevant Supplement to the Issuing Document. In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Fund or any of its Sub-funds, where applicable.

The Management Company, the AIFM and/or their affiliates may receive or pay fees or rebates in relation to the Fund or any Sub-fund, in compliance with applicable requirements, including, as the case may be, Directive 2004/39/EC of the European Parliament and of the European Council, as amended (the **Markets in Financial Instruments Directive (MiFID)**), as implemented in each state of the European Economic Area.

### **23.4 Performance Fee**

The Management Company may also be entitled to receive a performance fee, the terms and conditions of which will be set out in respect of each Sub-fund in the relevant Supplement to the Issuing Document. Certain Sub-funds use Benchmarks as defined by the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (**BMR**), for the purpose of computing performance fees (please refer to section “Performance Fee” in the relevant Sub-fund).

As required by article 28(2) of BMR, the AIFM has adopted a written plan setting out actions, which it will take with respect to the Sub-funds using a benchmark in the event that the benchmark index materially changes or ceases to be provided (the **Contingency Plan**). Investors may access the Contingency Plan free of charge at the registered office of the Management Company.

### **23.5 Other Fees**

The Management Company, the AIFM or a third party engaged by any one of the two on behalf of the Fund or a relevant Sub-fund may be entitled to receive other types of remuneration (e.g. carried interest, promote, commission, etc.) as set forth in the relevant Supplement to the Issuing Document. The Management Company may determine and set such other fees in respect of a given Sub-fund as set out in the relevant Supplement to the Issuing Document.

## **24 OPERATIONAL COSTS AND EXPENSES**

Each Sub-fund (and with each Sub-fund, each Pool, as the case may be) shall pay for the operational costs and expenses directly attributable to it (including any value added taxes), including:

- (a) accounting expenses, auditing fees, bank charges, legal fees, representation and publicity expenses, and other direct out-of-pocket costs; fees and expenses charged to the Fund and a given Sub-fund by lawyers, auditors, accountants, brokers and other professional advisers;
- (b) each Sub-fund will also bear the managerial fees and operational expenses attributable to its own investments, including, but not limited to, performance fees and carried interest for the managers of those investments, if any;
- (c) taxes payable by each Sub-fund, if any;
- (d) the costs of any listing application, if any, as well as the costs incurred with the ongoing listing of any of the Units of the Fund;
- (e) the fees of the Depositary, the Administrative Agent and other agents as may be appointed from time to time by the AIFM or the Management Company like the Service Providers; whereby the fees and expenses of the Depositary shall be in accordance with usual practice in Luxembourg, such fees being based on the net assets of each Sub-fund. Fees and expenses of any sub-custodian or correspondents of the Depositary are borne by each Sub-fund;
- (f) the costs of reasonable directors' and officers' liability insurance on behalf of the members of the Board, of any portfolio manager/manager and their key officers and employees, as the case may be;
- (g) the costs incurred in connection with any litigation, arbitration or other proceedings in relation to the Fund or the Sub-fund; and
- (h) the costs of meetings of any investment/advisory committees or other committees and reimbursements of reasonable costs incurred by the members of these

committees, as well as the costs relating to the convening and holding of Investors' meetings.

Costs and expenses which cannot be allotted to one (1) specific Sub-fund will be charged to the different Sub-fund in equal parts or, as far as it is justified by the amounts concerned, proportional to their respective net assets.

Costs and expenses which cannot be allotted to one (1) specific Pool will be charged to the different Pools in equal parts or, as far as it is justified by the amounts concerned, proportional to their respective net assets.

## **25 COSTS BORNE BY THE MANAGEMENT COMPANY**

The following operating expenses will be borne by the Management Company out of the Management Fee:

- (i) salaries of the employees of the Management Company (if any);
- (ii) office costs; and
- (iii) secretarial, administration, accounting and other advisory expenses of the Management Company including, where applicable, those charged to it by its Affiliates in relation to the assistance they provide to the Management Company in the management or administration of the Fund.

## **26 TAX STATUS**

The following is a summary of material tax consequences in Luxembourg of the acquisition, ownership and disposal of an interest in the Fund under the law, regulations and practice in force as of the date of the Issuing Document which may change, potentially with retrospective effect. It does not reflect any changes in law, court practice, decrees issued by tax authorities or other reform that has not yet entered into force even if contemplated as of the date of the Issuing Document.

This summary does not discuss every aspect of taxation that may be relevant to a particular Investor nor does it address tax imposed by any other jurisdictions.

Each potential Investor should consult its own tax advisor with respect to the tax consequences of acquiring, owning and disposing of an interest in the Fund.

Investors may require specific information from the Fund in order to prepare tax returns in their country of residence. This is particularly likely for Investors resident in jurisdictions in which the Fund is expected to be treated as tax transparent. The Management Company and the AIFM will comply with all reasonable requests for such additional information

concerning the tax structuring of the Fund. If additional information or research with respect to an Investor's domicile is required, the Management Company and the AIFM may require the Investor to pay the reasonable costs incurred in connection with obtaining or providing such information.

Where required by law or otherwise, the Management Company and the AIFM reserve the right to disclose the names of the Investors to any tax authority, in which case they will inform the Investors.

The Fund is a Luxembourg *fonds commun de placement* organised under the SIF Law and is considered tax transparent for Luxembourg tax purposes. Income received by a *fonds commun de placement* is not subject to Luxembourg corporate tax at the fund level and is generally not subject to Luxembourg withholding tax.

No value added tax (VAT) arises in Luxembourg in respect of any payment by the Fund to its Investors, as these payments are not seen as remuneration for goods or services. In addition, in Luxembourg a VAT exemption applies for fund management fees payable by the Fund to the Management Company.

Upon creation of the Fund, a fixed capital duty of seventy-five euro (€75) was due. In addition to this non-recurrent charge, the Fund will be subject to an annual subscription tax (*taxe d'abonnement*) in Luxembourg at an annual rate of zero point zero one (0.01) per cent. on the net asset value of the Fund. This annual subscription tax will be levied in four instalments at a rate of zero point zero zero twenty-five (0.0025) per cent. each and will be specifically calculated on the net asset value of the Fund at the end of each calendar quarter.

As a result of the status of the Fund from a Luxembourg tax perspective, each Investor in the Fund will be deemed to hold a direct interest in the Fund's assets, liabilities, income and expenses equal to the Investor's *pro rata* interest in the Fund, respectively the Sub-fund.

In principle, a non-resident Investor will not be subject to Luxembourg taxation by virtue of its *pro rata* share in the unconsolidated return of the Fund.

## **27 MISCELLANEOUS**

### **27.1 Investors' meeting**

Unless otherwise set forth in the relevant Supplement to the Issuing Document, meetings of Investors in the Fund and/or a Sub-fund will be governed by the following rules:

- (i) Investor meetings shall be held as often as the Management Company deems such meetings necessary. The notice whereby any meeting is convened shall be sent by registered letter to the Investors at least fifteen (15) calendar days prior to the date of the meeting (it being understood that the day of the meeting does count not for the calculation of the 15-day period) and shall comprise the date, place and time of the

meeting as well as an agenda of matters to be resolved or discussed. The agenda shall be prepared by the Management Company. Each Investor shall be entitled to attend the meeting, to address the meeting and to exercise its voting rights. Investors may be represented in a meeting by a proxy authorised in writing;

- (ii) At an Investors' meeting, each Investor may cast one (1) vote per Unit;
- (iii) Unless otherwise provided for in the Fund Documents, resolutions shall either be passed at an Investors' Ordinary Consent or at an Investors' Special Consent, as set forth in the proxy material which includes a detailed agenda. Any resolutions so passed shall bind all the Investors;
- (iv) In lieu of Investors' meetings, the Management Company may, at its discretion resolve to consult with Investors in writing. Written resolutions will thus require the Investors' Ordinary Consent or the Investors' Special Consent, as the case may be and as indicated in the relevant written resolutions. Any resolutions so passed shall bind all the Investors; and
- (v) If within half an hour after the time appointed for a physical meeting a quorum is not present, the meeting shall stand adjourned to the same time, day and place in the next week or to such other day and at such other time and place as the Management Company may determine and notify to Investors and if at the adjourned meeting a quorum is not present within half an hour from the time foreseen for the meeting, Investors present or represented shall form the quorum.

## **27.2 Reports**

The Fund's fiscal year begins on 1 January of each year and ends on 31 December of the same year. The first year shall start as of the date of formation of the Fund and will end on 31 December 2010.

The Management Company and the AIFM will arrange for the provision of the following reports:

### **27.2.1 Audited Annual Report**

The Management Company must establish an annual report for each financial year. The annual report must be available to Investors within six (6) months from the end of the period to which it relates. The annual report must include a balance sheet or a statement of assets and liabilities, an income and expenditure account for the financial year, a report on the activities of the past financial year as well as any significant information enabling investors to make an informed judgment on the development of the activities and of the results of the Fund.

The accounting information on the Fund level shall be prepared in accordance with Luxembourg GAAP, although the Management Company may decide to use different

accounting methods on a given Sub-fund level, as set forth in the relevant Supplement to the Issuing Document, as it may be updated from time to time. The first available annual report was the report in respect of the financial year closed at 31 December 2010.

#### **27.2.2 Further Reports**

The Management Company and/or the AIFM may establish any further reports and statements such as an unaudited balance sheet, an income statement, a cash flow statement and a status report on a given Sub-fund's investments and activities during the applicable period.

The Management Company and/or the AIFM may establish such further reports as determined in respect of a given Sub-fund as set forth in the relevant Supplement to the Issuing Document.

### **27.3 Amendments**

Unless otherwise provided for in the Issuing Document, the Management Company may amend any Fund Document without the approval of the Investors provided that such amendment does not adversely affect the Investors in any material respect which means, *inter alia*, that no such amendment may increase any Investor's commitment or any other Investor's obligation towards the Fund or reduce any Investor's share of the Fund's distributions or any other Investor's rights towards the Fund.

If the Management Company makes any amendment to a Fund Document it will inform the Investors and service providers of the proposed amendment.

In the event the Management Company resolves to modify the Fund Documents in such a way that Investors' rights may be adversely impacted, notice of the contemplated modification shall be provided to all Investors impacted by such change at least one (1) month before the date on which the modification becomes effective in order to enable Investors to request that their Units be redeemed in accordance with the redemption process foreseen at such time.

No change may be made to the Fund Documents before the change has been approved by or, in the case of the Issuing Document, filed with the CSSF for approval.

## **28 INFORMATION AVAILABLE**

### **28.1 Information about the Fund**

Copies of the Management Regulations, the Issuing Document and the latest financial reports may be obtained free of charge during office hours at the registered office of the Management Company.



Copies of material contracts the Management Company has entered into on behalf of the Fund are available for inspection during business hours at the registered office of the Management Company.

The Net Asset Value per Unit of each Sub-fund shall be available on each Subscription Day at the Management Company's registered office.

Claims of Investors against the Management Company or the AIFM lapse five years after the date of the event giving rise to the rights invoked.

English shall be the governing language for the Issuing Document.

## **28.2 Additional Information**

A brief description of the strategy put in place by the AIFM for determining when and how voting rights attached to instruments held in the Fund's portfolio are to be exercised shall be made available to investors in particular by way of the website [www.axa-im.com](http://www.axa-im.com).

The conflict of interest policy, fair treatment policy and liquidity management procedure are also available to investors on the website [www.axa-im.lu](http://www.axa-im.lu).

To the extent the Issuing Document does not directly include the information to be provided to investors, particularly pursuant to Article 23 of the AIFMD respectively Article 21 of the 2013 Law, before they invest in the Fund, such information will be made available at the Management Company's registered office.

## **29 INDEMNIFICATION**

The Management Company, the AIFM, the Depositary, the Administrative Agent, and their Affiliates, as well as each of their respective officers, directors, shareholders, agents and employees, and the members of any advisory committee(s) and any investment committee(s) are indemnified out of the assets of each Sub-fund in case of such person in such capacity being threatened any liabilities, actions proceedings, claims, costs, demands and expenses incurred or threatened by reason of it or him having been the Management Company, the AIFM, the Depositary, the Administrative Agent, an officer, director, shareholder, agent or employee of the Management Company, the AIFM, the Depositary, the Administrative Agent or a member of any advisory committee(s) or the investment committee(s) provided that such person shall not be indemnified in respect of any matter resulting from its or his fraud, wilful misconduct, bad faith, reckless disregard or gross negligence.

### 30 INCONSISTENCY

In the event of any inconsistency or conflict between the content of the Issuing Document and the content of any Supplement, the content of such Supplement will prevail for the purpose of the relevant Sub-fund.

### 31 CONFLICTS OF INTEREST

The Management Company, the AIFM, the Administrative Agent, the Depositary any other service provider or advisor to the Fund and their respective affiliates, officers, directors and shareholders, employees and agents (collectively the **Parties**) are or may be involved in other financial, investment and professional activities which may on occasion cause a conflict of interest with the management of the Fund, a Sub-fund, a Pool or a and/or their respective roles with respect to the Fund. These activities may include managing or advising other funds, purchases and sales of securities, banking and investment management services, brokerage services, valuation of unlisted securities (in circumstances in which fees payable to the entity valuing such securities may increase as the value of assets increases) and serving as directors, officers, advisers or agents of other funds or companies, including funds or companies in which the Fund may invest. In particular, the Management Company or the AIFM may advise or manage other collective investment schemes which have similar or overlapping investment objectives to or with the Fund or its Sub-funds.

A Sub-fund may invest in or be exposed to entities where controlling interests are held by other managed funds and accounts to whom the AIFM or any of its affiliates provides investment advice and/or discretionary management. The Fund may purchase assets from, and sell assets to, such entities and may also invest in or be exposed to different tranches of securities in such entities.

The Management Company and the AIFM or any of their Affiliates may contract or enter into any financial or other transaction with any Investor of a Sub-fund or with any company or body any of whose shares or securities are held by or for the account of the Sub-fund and may be interested in any such contracts or transaction.

Each of the Parties will use its reasonable endeavours to ensure that the performance of their respective duties will not be impaired by any such involvement they may have and that any conflicts which may arise will be resolved fairly.

There is no prohibition on the Parties entering into transactions with the Fund or a Sub-fund including, without limitation, holding, disposing or otherwise dealing with Units issued by or property of the Fund and none of them shall have any obligation to account to the Fund for any profits or benefits made by or derived from or in connection with any such transaction provided that such transactions are consistent with the best interests of Investors and dealings are carried out as if effected on normal commercial terms negotiated on an arm's length basis.

## **32 RISK FACTORS**

An investment in the Fund involves certain risk factors and considerations relating to the Fund's structure and investment objective which prospective Investors should evaluate before making a decision to invest in the Fund. No assurance can be given that the Fund will succeed in meeting its Investment Objective. Moreover, past performance is not a guarantee of future results.

Before making any investment decision, prospective Investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below and in the relevant Supplement to the Issuing Document.

The following is a brief description of certain factors, which should be considered along with other matters discussed elsewhere in the Issuing Document. The following does however, not purport to be a comprehensive summary of all the risks associated with an investment in the Units, the Fund or a Sub-fund generally. Rather, the following are only certain particular risks to which the Fund and its Sub-funds are subject and that the Management Company and the AIFM wish to encourage prospective Investors to discuss in detail with their professional advisors.

An investment in the Fund carries a high degree of risk including, but not limited to, the specific Sub-fund risks referred to in the relevant Supplement to the Issuing Document. No assurance can be given that Investors will realise a profit on their investment unless a fixed minimum return at a fixed point in time is stated specifically for a Sub-fund in the relevant Supplement. Moreover, Investors may lose some or all of their investment. The risks referred to below are neither specific nor exhaustive and a financial adviser or other appropriate professional should be consulted for additional advice.

Because the value of the Units directly relates to the value of the underlying assets, Investors may lose a substantial portion of their investment in the Units if the underlying assets decline in value unless there is a level of protection provided by the Sub-fund as defined in the relevant Supplement to the Issuing Document.

Although it is believed that the risk and uncertainties described below are the most important risks and uncertainties, these are not the only ones the Fund and the Management Company or AIFM face. Additional risks and uncertainties not presently known to the Fund and the Management Company or the AIFM, or that are currently deemed immaterial may also have a material adverse effect on the Fund's business, results of operations or financial condition and could negatively affect the Net Asset Value of the Fund and its Sub-funds.

### **32.1 Redemption Risk**

Investors may redeem Units in accordance with the terms of the Supplement to the Issuing Document. Large redemptions of Units might result in a Sub-fund being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In

addition, a significant redemption of Units may require a Sub-fund to realize investments at values which are lower than the anticipated market values of such investments. This may cause a temporary imbalance in a Sub-fund's portfolio, which may adversely affect the remaining Investors.

The Management Company is empowered to charge a Subscription Charge, a Redemption Charge and an Anti-dilution Levy in relation to each issue and redemption of Units, up to a substantial amount of the Net Asset Value of the Fund. Other charges may apply, for example in the case of a conversion of Units, each time as set forth in the relevant Supplement.

Thresholds limiting the maximum number of Units which may be redeemed on each Redemption Day will also be put in place. In addition, a substantial portion of the Units may be compulsorily converted into non-redeemable Units in case one (1) or more assets become illiquid. Details of the current Subscription Charge, Redemption Charge, Anti-Dilution Levy, Threshold, if any and process of conversion of Units are set out in the Supplement of each Sub-fund.

The Management Company may also, in consultation with the AIFM, temporarily suspend the determination of the Net Asset Value per Unit of any Sub-fund and/or the issue and redemption of Units in respect of a given Sub-fund under specific circumstances (including, without limitation, when the AIFM determines, that the proportion of assets of the relevant Sub-fund(s) valued under the Mark-to-Model Valuation represents a significant part of the total assets of the relevant Sub-fund(s)).

The Management Company may also in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation with the AIFM, that disposal or valuation of a portion of the assets of a Sub-fund is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of Units is not in the best interest of the Sub-fund.

Cash or securities may be distributed to redeeming Investors, as determined by the Management Company.

## **32.2 Liquidity**

The ability of the Fund to sell particular investments may be seriously restricted as a result of legal restrictions, low market capacity and the size and nature of the assets. In consequence, the liquidation of such may prove to be difficult and prolonged, and may only be possible if discount is accepted.

### **32.3 Foreign investments**

The Fund may indirectly be exposed to investments in foreign securities or other assets, whereby any fluctuation in currency exchange rates may affect the value of these investments, and any restriction imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

### **32.4 Unspecified investments**

This offer is a non-specified asset offering and the Investors will not have the opportunity to evaluate specific investments prior to an investment therein. There can be no assurance that the AIFM will be able to identify and make investments that meet its objectives. Investors must rely on the ability of the AIFM and its appointed agents, as the case may be, to identify structure and implement investments in accordance with the Fund's and each Sub-fund's investment objectives.

### **32.5 Restrictions on transfer of Units**

The transfer of Units shall be restricted to transfers to Well-Informed Investors only. Investors should be aware that there may not be a liquid, secondary trading market for the Fund's Units at all times. For these reasons, Investors will be required to bear the financial risks of their investment for a long term.

### **32.6 FACTA and CRS Consideration**

Under the terms of the FATCA Law and the CRS Law, the Fund is likely to be treated as a Reporting (Foreign) Financial Institution. As such, the Management Company may require all Investors to provide documentary evidence of their tax residence and all other information deemed necessary to comply with the above mentioned regulations. Should the Fund become subject to a withholding tax and/or penalties as a result of a non-compliance under the FATCA Law and/or penalties as a result of a non-compliance under the CRS Law, the value of the Units held by all the Investors may be materially affected.

Furthermore, the Fund may also be required to withhold tax on certain payments to its Investors who would not be compliant with FATCA (i.e. the so-called foreign pass-through payments withholding tax obligation).

### **32.7 Sustainability Risk**

Pursuant to SFDR, the Fund is required to disclose the manner in which Sustainability Risks are integrated into the investment process, and the results of the assessment of the likely impacts of Sustainability Risks on the returns of the Fund.

Sustainability Risks in relation to the investments performed by the AIFM may arise in the social, environmental or governance areas.

In order to identify and manage these risks, the AIFM uses an integrated approach to Sustainability Risks based on a global set of policies and processes. Such framework is implemented to integrate the most material Sustainability Risks in investment decisions based on sustainability factors and relies notably on the following:

- **A general approach** with the **application of AXA IM Global ESG Policies** which results in the AIFM specifically limiting direct investment into particular sectors, companies and underlying assets on the basis that they are most exposed to specific risks with a focus on climate (Coal & tar sands), biodiversity (ecosystem protection and deforestation) and human rights (controversial weapons).

These exclusion policies are also adapted for certain asset classes and may evolve over time.

- **A specific approach** with the integration of ESG factors in the investment decision process. Proprietary methodologies are implemented to conduct specific Sustainability Risk assessments based on ESG factors, notably during the investment due diligence phase for a contemplated investment. Depending on the type of investment and strategy, the assessment can be carried out on any or a combination of the following items, without limitation: the underlying asset (including the issuer), the sector, the counterparty of the trade, the originator, servicer, or manager of underlying portfolio. For indirect investment, the due diligence covers, among ESG factors, the assessment of the exclusion policies implemented by the relevant counterparty, originator, servicer, or manager of underlying portfolio.

The AIFM does not guarantee that the investments made by the Fund are not subject to Sustainability Risks to any extent and there is no assurance that the Sustainability Risks assessment will be successful at capturing all Sustainability Risks for the Fund portfolio as a whole at any point in time. Investors should be aware that the assessment of the impact of Sustainability Risks on the performance of the Fund is difficult to predict and is subject to inherent limitations such as the availability and quality of the data.

If such Sustainability Risks materialize in respect of any investment, they may have a negative impact on the financial performance of the relevant investment and as a result on the performance of the Fund portfolio as a whole and the financial returns to the Investors. The likely impact of Sustainability Risks on the returns of each of the Sub-funds is expected to be as described in the relevant section for each Sub-fund where applicable.

The magnitude of potential negative impacts from Sustainability Risks ranges from “Low” to “High” depending on the occurrence probability of such risks and the loss severity if they materialize. Sustainability Risks include but are not limited to: controversies regarding environmental or social impacts of the activity, governance issues, changing regulatory environment or disruptive technology threatening the business continuity.

Investors should also be aware that if Sustainability Risks materialize in respect of any investment, they may have further impacts on other type of risks, such as reputational risk for the Fund, the AIFM and the Management Company.

The classification of the Sub-funds under SFDR may be subject to adjustments and amendments, since SFDR has come into force recently only and certain aspects of SFDR may be subject to new and/or different interpretations than those existing at the date of the Issuing Document. As part of the ongoing assessment and current process of classifying its financial products under SFDR, the AIFM reserves the right, in accordance with and within the limits of applicable regulations and of the Fund's legal documentation (including the relevant Supplements), to amend the classification of the Sub-funds from time to time to reflect changes in market practice, its own interpretations, SFDR-related laws or regulations or currently-applicable delegated regulations, communications from national or European authorities or court decisions clarifying SFDR interpretations.

Investors are reminded that they should not base their investment decisions on the information presented under SFDR only.

Unless otherwise specified with respect to a specific Sub-fund in the relevant Supplement to the Issuing Document, all Sub-funds are taking into account the Sustainability Risks within the meaning of article 6 of SFDR and do not intend to promote ESG characteristics (article 8 SFDR) nor have sustainability as an investment objective (article 9 SFDR).

The AIFM does not consider the adverse impacts of investment decisions taken in respect of the Sub-funds on sustainability factors as the AIFM, in its view, could not gather and/or access sufficient meaningful data in respect thereof, or it could not do so systematically and, consistently for the entire portfolio. In addition, the Sub-funds do not categorise themselves as financial products which promote specific environmental or social characteristics, or which pursue an objective of sustainable investment. Should this position change and if the AIFM will consider the adverse impacts of its investment decisions on sustainability factors, the related disclosures (i) on its website and (ii) in the current Issuing Document will be updated at the next available opportunity.

## **SUPPLEMENT TO THE ISSUING DOCUMENT OF AXA IM NOVALTO**

a mutual investment fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

**Gaia**



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## **1 NAME OF THE SUB-FUND**

The name of the Sub-fund is Gaia.

## **2 DEFINITIONS AND INTERPRETATION**

### **2.1 Definitions**

Capitalized terms used in this Supplement have the meaning ascribed to them in the Issuing Document, unless otherwise defined herein:

|                            |  |
|----------------------------|--|
| <b>A-B Conversion</b>      | has the meaning ascribed to it in section 14. of this Supplement;  |
| <b>A Pool</b>              | means a fully segregated sub-pool of assets created on the Evergreen Option Date, with the ownership interest therein being represented by the A Units issued and outstanding on such date;  |
| <b>A Units</b>             | redeemable Units I-A, Units II-A, Units III-A, Units IV-A, Units V-A and Units VI-A in Gaia and any other A Unit Classes or A Sub-Classes of Units issued from time to time by Gaia, at the sole discretion of the Management Company;   |
| <b>Amortization Period</b> | has the meaning ascribed to it in section 10. of this Supplement;  |
| <b>Anti-Dilution Levy</b>  | a provision for market spreads (the difference between the prices at which assets are valued and/or bought or sold), duties and charges and other dealing costs relating to the acquisition or disposal of assets in order to preserve the value of the underlying assets of Gaia; any such provision may be equal to up to ten (10) per cent. of the NAV per Unit and may be added to the Issue Price and deducted from the Redemption Price; |
| <b>B-A Conversion</b>      | has the meaning ascribed to it in section 14.;   |
| <b>Benchmark A Pool</b>    | has the meaning ascribed to it in section 17.;   |
| <b>Benchmark C Pool</b>    | has the meaning ascribed to it in section 17.;   |

**Benchmark Fund**

has the meaning ascribed to it in section 17.;

**B Pool**

means a fully segregated sub-pool of illiquid assets created in accordance with section 11, with the ownership interest therein being represented by the B Units issued and outstanding as of the relevant date;

**B Units**

non redeemable Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B in Gaia and any other B Unit Classes or B Unit Sub-Classes of non redeemable Units issued from time to time by Gaia, at the sole discretion of the Management Company;

**C-D Conversion**

has the meaning ascribed to it in section 14. of this Supplement;

**Coal**

means:

- (i) companies that derive 50% or more of their revenues from coal; and/or
- (ii) mining companies that extract more than 20 million tons of coal per year;

**Controversial Weapons**

means:

- (i) companies that produce, use, storage, trade, or ensure the maintenance, transportation and financing of controversial weapons or components specifically designed for those types of controversial weapons (including antipersonnel landmines, cluster weapons, chemical and biological weapons, depleted uranium, nuclear weapons and white phosphorus), including any products which are prohibited under applicable international treaties or conventions;

- (ii) companies that derive more than 10% of their revenues by supporting or providing assistance, research and technology dedicated only to those controversial weapons;
- (iii) companies that breach the Treaty on the Non-Proliferation of Nuclear Weapons (**NPT**); and/or
- (iv) companies that own more than 50% of the share capital or voting rights in any Fund referred to in subparagraphs (i) to (iii) above;

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| <b>C Pool</b>              | means a fully segregated sub-pool of assets created on the Evergreen Option Date, with the ownership interest therein being represented by the C Units issued and outstanding on such date;  |
| <b>C Units</b>             | redeemable Units I-C, Units II-C, Units III-C, Units IV-C, Units V-C and Units VI-C in Gaia and any other C Unit Classes or C Sub-Classes issued from time to time by Gaia, at the sole discretion of the Management Company;                                  |
| <b>D-C Conversion</b>      | has the meaning ascribed to it in section 14. of this Supplement;  |
| <b>Deferred Redemption</b> | has the meaning ascribed to it in section 13.;   |
| <b>D Pool</b>              | means a fully segregated sub-pool of illiquid assets created in accordance with section 11, with the ownership interest therein being represented by the D Units issued and outstanding as of the relevant date;   |
| <b>D Units</b>             | non redeemable Units I-D, Units II-D, Units III-D, Units IV-D, Units V-D and Units VI-D in Gaia and any other D Unit Classes or D Unit Sub-Classes of non redeemable Units issued from time to time by Gaia, at the sole discretion of the Management Company; |

|  |  |
|--|--|
| <b>ESG</b>   | means environmental, social and governance;  |
| <b>EU Taxonomy</b>                                     | means Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, as amended from time to time;   |
| <b>ESG Scoring Process</b>                             | has the meaning set out in the Pre-contractual disclosure;   |
| <b>Evergreen Split</b><br><b>Evergreen Option Date</b> | has the meaning ascribed to it in section 11.2.;<br>the Valuation Point immediately preceding the day falling four (4) years after the Initial Subscription Day of A Units, when the AIFM will segregate the remaining (liquid) assets and liabilities of Gaia (i.e., excluding the assets previously allocated to the B Pool and to the D Pool), into A Pool and C Pool, <i>pro rata</i> to the value of A Units and C Units issued and outstanding at such date, with all A-C Conversions and C-A Conversions duly taken into account; |
| <b>Formation Date</b>                                  | the launch date of Gaia, i.e. 4 <sup>th</sup> January 2010, the date on which the Management Regulations of the Fund were first executed by and between the Management Company and the Depositary;   |
| <b>Gaia</b>  | Gaia, the first Sub-fund of the Fund managed by the Management Company in accordance with the Management Regulations;  |
| <b>Initial Subscription Day</b>                        | 11 January 2010 or any other day as determined by the Management Company (in its sole discretion);   |
| <b>ILS</b>   | has the meaning ascribed to that term in section 3.;   |
| <b>ILS Sponsor</b>                                     | means with respect to an ILS, the entity (such as insurance company and/or corporates) whose part of the risk related to insurance events is ceded/hedged in accordance with the terms and conditions of the relevant ILS;   |
| <b>Issue Price</b>                                     | the issue price per Unit determined in accordance with section 11. of this Supplement;   |
| <b>Leverage</b>  | Is any method by which the Management Company or the AIFM, as the case may be, increases the   |

|                                   |  |
|-----------------------------------|--|
|                                   | <p>exposure of Gaia whether through borrowing of cash or transferable securities, or leverage embedded in derivative positions or by other means;</p>  |
| <b>Performance Fee</b>            | <p>has the meaning ascribed to it in section 17.;</p>  |
| <b>Pre-contractual disclosure</b> | <p>means the ESG disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of SFDR and Article 6, first paragraph of the EU Taxonomy</p>   |
| <b>Redemption Charge</b>          | <p>a charge not exceeding five (5) per cent. of the NAV per Unit which may be deducted from the Redemption Price of Units at the Management Company's sole discretion, it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limit. Such charge shall be paid to the benefit of Gaia or as the case may be after the Evergreen Option Date, to the benefit of the A Pool and/or the C Pool, as applicable;</p>   |
| <b>Redemption Day</b>             | <p>each day on which A Units and C Units of the relevant Class or Sub-Class are redeemed, being no later than seven (7) Business Days after the relevant Valuation Point and such other days as determined by the Management Company (in its sole discretion);</p>   |
| <b>Redemption Notice</b>          | <p>the notice to redeem any Units sent by an Investor in accordance with section 13; any such notice shall be delivered to the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point; the NAV taken as the basis of the settlement of the redemption order is the one determined on the Valuation Point immediately preceding the relevant Redemption Day (and as such is not known when the order is placed); the payment of the Redemption Price shall be made within three (3) Business Days after the Redemption Day;</p> |
| <b>Redemption Price</b>           | <p>has the meaning ascribed to it in section 13.;</p>  |

|   |  |
|---|--|
| <b>Reference Calculation Day</b>        | has the meaning ascribed to it in section 17.;   |
| <b>Reference Period</b>                 | has the meaning ascribed to it in section 17.;   |
| <b>Relevant Mark-to-Model Valuation</b> | has the meaning ascribed to that term in section 16.;  |
| <b>SARON</b>                            | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator);   |
| <b>Series Conversion</b>                | has the meaning ascribed to it in section 14;  |
| <b>SOFR</b>                             | means the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York (or any successor administrator);  |
| <b>Soft Commodities</b>                 | means companies that derive 25% or more of their revenues from speculative trading in soft commodities (such as wheat, rice, meat, soya, sugar, dairy, fish, and maize), excluding the companies whose main business is the production/trading of such soft commodities on a non-speculative basis;  |
| <b>SORA</b>                             | means the Singapore Overnight Rate Average provided by the Monetary Authority of Singapore (or any successor administrator) on the Monetary Authority of Singapore's Website (or as published by its authorized distributors);   |
| <b>Subscription Charge</b>              | A charge not exceeding five (5) per cent. of the NAV per Unit which may be added to the Issue Price per Unit at the sole discretion of the Management Company, it being understood that the Management Company may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limits. Such charge shall be paid to the benefit of Gaia or, after the Evergreen Option Date, to the benefit of the A Pool and/or the C Pool, as applicable. |
| <b>Subscription Day</b>                 | each day on which Units of the relevant Class or Sub-Class may be issued, being no later than seven (7) Business Days after the relevant Valuation Point and any such other days as determined by the Management Company (in its sole discretion);   |

|                        |  |
|------------------------|--|
| <b>Threshold</b>       | has the meaning ascribed to it in section 13.;   |
| <b>Tobacco</b>         | means companies that derive 25% or more of their revenues from the production or sale of tobacco and tobacco products such as cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco whether directly or indirectly through majority-owned (50%) subsidiaries; |
| <b>U.S.</b>            | the United States of America; and  |
| <b>Valuation Point</b> | the last Business Day of each month.   |

## 2.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise:

- (a) The singular includes the plural and conversely;
- (b) A gender includes all genders;
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- (e) A reference to a section is a reference to a provision of this Supplement;
- (f) A reference to an agreement or document (including, without limitation, a reference to this Supplement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Supplement, the Issuing Document and/or the Management Regulations or that other agreement or document;
- (g) A reference to a party to this Supplement or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives);
- (h) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind;



- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it;
- (j) A reference to a statutory definition includes the definition as amended or replaced from time to time;
- (k) A reference to conduct includes, without limitation, an omission, statement and undertaking, whether or not in writing;
- (l) A reference to the Depositary, Administrative Agent, the AIFM or the Management Company includes a reference to their respective officers, employees and agents or any of them;
- (m) A reference to the Management Company being the registered owner, holder or transferee of any asset or as being the party to whom or by whom any payments (including but not being limited to payments of taxes) are to be made, is, where appropriate, a reference to any agent or delegate of the Management Company;
- (n) Any reference to Gaia shall be a reference to all of its Pools, if and when created, unless the context requires otherwise;
- (o) A reference to a quarter is a reference to a calendar quarter commencing on 1 January, 1 April, 1 July or 1 October and ending on the next following 31 March, 30 June, 30 September or 31 December, respectively;

### 3 INVESTMENT OBJECTIVE AND POLICY

The investment objective of Gaia is to seek to achieve, over the life of Gaia, an absolute return in the reference currency of each Class, in compliance with the investment policy described below.

There can be no assurance that Gaia's investment objectives will be achieved. Investment results may substantially vary over time.

The AIFM will invest the assets of Gaia in insurance-linked securities (**ILSs**) of all kinds.

ILS are assets where the coupon and/or redemption is dependent on the occurrence of any of the Insured Events pertaining to any risk class as specified in section 7 of this Supplement.

The event risk refers to the occurrence of an Insured event. Examples of these types of risk are earthquakes in California and the Midwest of the US, in Japan, New Zealand and Europe; windstorms in Europe, the north-east and south-east coasts of the US, in Hawaii, Puerto Rico and Japan; extreme temperatures (heat/cold); aviation catastrophes; shipping catastrophes; explosion and fire catastrophes; mortality risks. This list is not exhaustive. However, these Insured Events must always be specified and documented.

The main strategy is to create a diversified portfolio of insurance risks, which are quantifiable and can be modeled by scientific and mathematical models and techniques. For the avoidance of doubt, the AIFM seeks to achieve a portfolio that is diversified by risk classes at the time of purchase of the relevant asset or entry into the relevant derivative instrument.

Gaia will be exposed to the ILS asset class through various eligible financial instruments (such as, without limitation, bonds, notes, derivatives financial instruments, shares, loans, units, etc...).

The AIFM may also invest Gaia's assets in indirect investments in ILS in the form of units or shares of investment funds, others vehicles, or other undertakings for collective investment of a similar function.

The AIFM may acquire short-term liquid assets in the form of sight or time deposits denominated in a freely convertible currency with terms to maturity not exceeding twelve months and in the form of money market instruments issued by issuers worldwide that are denominated in a freely convertible currency, are liquid, can be readily valued and are traded on an exchange or other regulated market open to the public.

Derivatives form part of the investment policy and are not used solely to hedge investment positions.

Both basic forms of derivatives and exotic derivatives may be used, provided the underlying risk is covered under the investment policy. The derivative transactions may be concluded on either a stock exchange or another regulated market open to the public, or in OTC trading if the counterparty is a regulated financial intermediary. In addition to market risks, derivatives are also subject to counterparty risk, i.e. the risk that the party to the contract may not be able to meet its obligations and may thus cause a financial loss.

Regarding the use of derivative financial instruments to gain exposure to the ILS asset class, the AIFM may establish trust account in a custodian bank in which collateral assets will be deposited by Gaia in order to secure, in whole or in part, its payments obligations towards the swap counterparties.

The AIFM may use credit default swaps (CDSs) in order to hedge the counterparty risk associated with some of the investments of Gaia, if deemed necessary.

In addition to CDSs, all other types of credit derivatives may be acquired (e.g. total return swaps (TRSs), credit spread options (CSOs), credit linked notes (CLNs) by which risks can be transferred to third parties (so-called risk buyers). The risk buyers receive a premium as compensation. The size of this premium depends, among other things, on the probability of a loss event occurring and the maximum size of the loss; both factors are generally difficult to assess, which increases the risk associated with credit derivatives. The AIFM may act as both a risk buyer and s risk seller.

Gaia aims at promoting environmental and social characteristics (such as biodiversity, climate, or human rights) within the meaning of Article 8 of SFDR through the integration of

ESG consideration in its investment process as detailed in the Pre-contractual disclosure below.

#### **4 FURTHER INVESTMENT RESTRICTIONS**

The AIFM may from time to time impose such restrictions that it deems to be in the best interest of Gaia and its Investors.

#### **5 EFFICIENT PORTFOLIO MANAGEMENT TECHNIQUES**

##### **5.1 General**

Gaia may use financial derivatives instruments (including without limitation listed and OTC derivatives such as total return swaps) in accordance with the conditions set out in this Section 5.

All revenues arising from efficient portfolio management techniques, net of direct or indirect operational costs and fees, will be returned to the Gaia.

Gaia may incur costs and fees in connection with efficient portfolio management techniques. In particular, Gaia may pay fees to agents and other intermediaries, which may be affiliated with the Depositary, the AIFM or the Management Company to the extent permitted under applicable laws and regulations, in consideration for the functions and risks they assume. The amount of these fees may be fixed or variable. Information on direct or indirect operational costs and fees incurred by Gaia in this respect, as well as the identity of the entities to which such costs and fees are paid and any affiliation they may have with the Depositary, the AIFM or the Management Company, if applicable, will be available in the annual report.

Gaia may incur fixed or variable brokerage fees and transaction costs upon entering into such techniques and instruments. Such transactions costs will be described in the annual report of Gaia.

Under no circumstances, shall these operations cause Gaia to diverge from its investment objective and policy.

##### **5.2 Securities Lending and borrowing /repurchase and reverse transactions**

Gaia will not enter into securities financing transactions (SFT) such as securities lending, borrowing, repurchase and reverse transactions.

##### **5.3 Total Return Swap**

Gaia may enter into total return swaps (which may be either funded or unfunded) which are swap agreements in which one party (total return payer) transfers the total economic performance of a reference asset to the other party (total return receiver). Total economic

performance includes interest and fees, gain or losses from market movements and credit losses. These instruments will be carried out as part of the achievement of the management objective of Gaia, hedging, cash management and/or efficient portfolio management.

The AIFM expects that such transactions will apply to a range from 0% to 5% of the Net Asset Value, however Gaia may enter into such transactions up to 50% of its Net Asset Value.

The assets of Gaia which might be subject to total return swaps are usually ILS.

Details on the past utilization of these transactions are contained in the Gaia's annual report.

Gaia shall enter into any total return swaps with counterparties subject to prudential supervision rules considered by CSSF as equivalent to those prescribed by EU law and selected by the AIFM in accordance with its order execution policy available on its internet website. In this context, the AIFM will enter into such transactions with such counterparties established in an OECD Member State having a long term debt rated at least BBB- according to the ratings scale of Standard & Poor's (or deemed equivalent by the AIFM).

## **5.4 Collateral Management**

### Eligible Collateral

Collateral received by Gaia may be used to reduce its counterparty risk exposure if it complies with the criteria listed in circulars issued by CSSF from time to time in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;
- it should be valued on a daily basis on a mark-to-market price basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place. Margin calls will be implemented in accordance with the terms negotiated in the collateral arrangements;
- it should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;
- it should be sufficiently diversified in terms of country, markets and issuers and shall not entail on an aggregate basis an exposure to a given issuer for more than 20% of its Net Asset Value. By way of derogation, Gaia may be fully collateralized in different Transferable Securities or Money Market Instruments issued or guaranteed by any of the Member States, one or more of their local authorities, a third party sovereign country such as Canada, Japan, Norway, Switzerland and the United States of America, or any public international body to which one or more Member State(s) belong(s) such as the European Investment Bank,

provided that it receives such securities from at least six different issues and that securities from any single issue should not account for more than 30% of the Net Asset Value;

- the financial guarantees received by Gaia will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider.
- it should be capable of being fully enforced by the AIFM for the account of Gaia at any time without reference to or approval from the AIFM.

#### Haircut policy

In accordance with its internal policy relating to the management of the collateral, the AIFM shall determine:

- the required level of collateral; and
- the level of haircut applicable to the assets received as collateral, taking into account in particular the type of assets, the credit standing of the issuers, the maturity, the currency, the liquidity and the price volatility of the assets.

#### Eligible assets

As long as it complies with the conditions mentioned in the paragraph “Eligible collateral” above, the collateral may consist of (i) sovereign OECD bonds; and/or (ii) direct investment in bonds issued or guaranteed by first class issuers offering adequate liquidity or shares listed or dealt on a regulated market of a member state of the European Union or on a stock exchange of a member state of the OECD provided that they are included in a main index.

#### Reinvestment of collateral

Gaia will be able to reinvest the financial guarantees received in accordance with the applicable regulation. The financial guarantees other than cash cannot be sold, reinvested or pledged. The counterparty will be able to reinvest the financial guarantees received from Gaia in accordance with any regulation applicable to the counterparty.

## **6 CURRENCY HEDGING**

In order to manage the currency risk associated with Gaia's assets and liabilities denominated in currencies other than the Base Currency, the AIFM may employ all available techniques and instruments intended to provide currency rate exchange protection with respect to the assets of Gaia and its Units. All costs, gains and losses of such hedging transactions are borne separately by the respective Classes and Sub-Classes, respectively the Pools.

## 7 RISK CLASSES

- (a) California Earthquake  
An earthquake in the state of California in the U.S.;
- (b) New Madrid Earthquake  
An earthquake in the following states of the U.S.:  
  
Alabama, Arkansas, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin;
- (c) Other US Earthquake (excluding California Earthquake and New Madrid Earthquake)  
An earthquake in the states of the U.S. other than specified in (a) and (b);
- (d) U.S. Southeast Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:  
  
Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas;
- (e) U.S. Northeast Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:  
  
Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia;
- (f) Other U.S. Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the states of the U.S. other than those specified in (d) and (e);
- (g) Non-Hurricane Windstorm in the U.S.  
Any form of windstorm that is not included above in (d), (e) or (f) and may include severe thunderstorms, extra-tropical cyclones, hail storms, snow storms and other winter storms;
- (h) Japan Earthquake  
An earthquake in Japan;

- (i) Japan Wind  
A typhoon (referred as tropical cyclone) in the Country of Japan;
- (j) Other Earthquakes  
An earthquake in countries or states other than specified in (a), (b), (c) and (h). This category might include Risk such as Mexico earthquake, Canada earthquake, Israel earthquake, European earthquake etc.;
- (k) Europe Wind  
A wind storm (referred as extra tropical cyclones or winter storms) in the following countries:  
  
Albania, Andorra, Austria, Belarus, Belgium, Bosnia, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Eire, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovakia, Slovenia, Sweden, Switzerland, Spain, Turkey, Ukraine, United Kingdom and Vatican City;
- (l) Extreme Mortality  
World-wide mortality events;
- (m) Any other risk class that do not fall into any other risk class above. This category is not restricted to natural catastrophes or life related risks and might include all types of insurable risks;
- (n) Any second or subsequent event where the collateral obligation is structured such that it can only default on a second or subsequent event from a peril or combination of perils from the above list in class (a) to class (m).

The AIFM will determine in good faith and in a commercially reasonable manner in which risk class(es) the insured perils associated with each asset of Gaia will fall into.

While certain ILS only cover a single event risk, many ILS can cover several event risks at once. Therefore, these ILS can fall into several risk classes.

## 8 LEVERAGE RESTRICTIONS

### Direct leverage

The AIFM may be required to borrow funds to make investments or pay expenses pending Gaia's receipt of the Issue Price from Investors or other receipts of cash.

The total amount borrowed by Gaia at any given point in time may not exceed fifty (50) per cent. of the NAV of Gaia (or, after the Evergreen Option Date, fifty (50) per cent. of the NAV of the A Pool and fifty (50) per cent. of the NAV of the C Pool). Any borrowings shall be

within the guidelines set forth by first class banks/debt providers and in line with local rules and regulations.

Any leverage shall be limited recourse to the assets of Gaia or, as the case may be, the relevant Pool within Gaia.

#### Indirect leverage

By using non-collateralised financial derivative instruments, the AIFM may create indirect leverage which at any given point in time may not exceed fifty (50) per cent. of the NAV of Gaia (or, after the Evergreen Option Date, fifty (50) per cent. of the NAV of the A Pool and fifty (50) per cent. of the NAV of the C Pool).

Any indirect leverage exposure shall be limited recourse to the assets of Gaia or, as the case may be, the relevant Pool within Gaia.

The AIFM may from time to time impose further leverage restrictions as shall be compatible with or in the interest of the Investors in order to comply with the laws and regulations of Luxembourg and any other countries where the Units of Gaia are offered.

#### Further Restrictions

Without prejudice of the foregoing, the Leverage is controlled and shall not exceed (as a ratio of exposure of Gaia and its NAV) two hundred percent (200%) when using the commitment method and three hundred percent (300%) when using the gross method.

Gaia's exposure is calculated by the AIFM, as the case may be, in accordance with two cumulative methods: the "commitment method", as set-out by article 8 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012 and the "gross method" as set-out by article 7 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012. The gross method gives the overall exposure of Gaia whereas the commitment method gives insight in the hedging and netting techniques used by the AIFM.

## **9 ELIGIBLE INVESTORS**

Units in Gaia are exclusively available to Investors residing in any of the countries registered on the list of eligible countries as maintained by the AIFM. The AIFM may add or remove countries from the list of eligible countries in its sole discretion from time to time.

## **10 TERM**

Gaia is established for an unlimited period of time. Its Pools however, if and when created, will each time be established for a limited or an unlimited duration as described in this section 10.



Unless Gaia is terminated earlier upon the occurrence of certain events specified in the Fund Documents, or if the Management Company decides in consultation with the AIFM to redeem all the Units in Gaia before the Evergreen Option Date, the following terms will apply:

The **A Pool** will have a limited duration, whereby any A Units issued and outstanding shall be progressively redeemed and principal shall be progressively returned to Investors from the period beginning on the date falling six (6) years after the Initial Subscription Day of the A Units and, if not extended (as described below), ending on the date falling seven (7) years after the Initial Subscription Day of A Units (the **Amortization Period**).

During the Amortization Period, proceeds received in connection with the redemption or sale of assets in the A Pool are anticipated to be distributed to Investors by way of redemption of A Units, *pro rata* from all Investors holding A Units. Notwithstanding the foregoing, the AIFM may undertake short term reinvestments during the Amortization Period.

The Amortization Period may be extended beyond the date falling seven (7) years after the Initial Subscription Day of A Units for a further period of up to three (3) years, upon a decision of the Management Company in consultation with the AIFM. On or before the end of the Amortization Period (as extended in accordance with this section, if applicable), the A Pool's remaining assets will be liquidated and the resulting proceeds will be paid to Investors holding A Units.

The **C Pool** has an unlimited duration. The AIFM will continue to manage the C Pool in accordance with Gaia's investment objective, policy and restrictions. The AIFM will be allowed to reinvest all or part of available proceeds.

Any C Units issued and outstanding as at the Evergreen Option Date will remain subject to Gaia's terms and conditions and in particular the redemption provisions described under section 13.

## 11 SUBSCRIPTION AND ISSUE OF UNITS

The Management Company may issue different A and C Unit Classes and Sub-Classes in Gaia as appropriate. These A and C Unit Classes and Sub-Classes will carry different rights and obligations as described in this section 11. Other Unit Classes may be issued as foreseen in this Supplement.

Investors wishing to subscribe for A Units and C Units must in accordance with the procedure described under section 11 of the Issuing Document deliver a complete Subscription Form (to be received by the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the relevant Valuation Point) and pay the entire Subscription Amount (for receipt by the Administrative Agent) by no later than the day falling one (1) Business Day after the relevant Valuation Point.

## 11.1 Classes, Sub-Classes, Series and subscription process

### Classes and Sub-Classes

The Management Company has issued the following A Units Sub-Class at the launch of Gaia:

- Capitalisation Units denominated in USD (**Units I-A**).

The Management Company may also issue the following A Unit Sub-Classes:

- Distribution Units denominated in USD (**Units II-A**);
- Capitalization Units denominated in EUR (**Units III-A**);
- Distribution Units denominated in EUR (**Units IV-A**);
- Capitalization Units denominated in CHF (**Units V-A**); and
- Distribution Units denominated in CHF (**Units VI-A**).

The Management Company reserves the right to issue further A Unit Sub-Classes.

As of 26 October 2021, the Management Company may issue C Unit Sub-Classes as follows:

- Capitalization Units denominated in USD (**Units I-C**);
- Distribution Units denominated in USD (**Units II-C**);
- Capitalization Units denominated in EUR (**Units III-C**);
- Distribution Units denominated in EUR (**Units IV-C**);
- Capitalization Units denominated in CHF (**Units V-C**);
- Distribution Units denominated in CHF (**Units VI-C**);
- Capitalization Units denominated in SGD (**Units VII-C**); and
- Distribution Units denominated in SGD (**Units VIII-C**).

The Management Company reserves the right to issue further C Unit Sub-Classes.

The Management Company may issue each Unit Sub-Class in different Series, each Series corresponding to different fee schedule applicable to the relevant Investors. Series will be numbered from 1 to 10.

The Management Company may, under certain circumstances as described under section 14, convert A Units into B Units and issue the corresponding B Units to each Investor whose A Units have been so converted.

The Management Company may, under certain circumstances as described under section 14, convert C Units into D Units and issue the corresponding D Units to each Investor whose C Units have been so converted.

Up to and until the Evergreen Option Date, the Management Company may, under certain circumstances as described under section 14 of this Supplement, convert A Units into C Units and issue the corresponding C Units to each Investor whose A Units have been so converted.

Up to and until the Evergreen Option Date, the Management Company may, under certain circumstances as described under section 14, convert C Units into A Units and issue the corresponding A Units to each Investor whose C Units have been so converted.

Each conversion shall each time also take into account the relevant Sub-Class and Series, as applicable.

#### Subscription process

The Management Company will not issue Units on the Subscription Day unless the application for subscription of such Units has been received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the Valuation Point immediately preceding the Subscription Day. Otherwise such application shall be deemed to have been received late and will, unless the Management Company determines otherwise in its discretion, be applied in relation to the next following Subscription Day. Nonetheless, the Management Company will have the right, in its own discretion, to accept applications not complying with the principles set forth in this paragraph.

Subscription requests made in accordance with the foregoing procedure shall be irrevocable.

Payments of the Subscription Amount as specified in section 11.1 shall be made for receipt by the Administrative Agent by not later than the day falling one (1) Business Day after the relevant Valuation Point in the Base Currency or any other currency specified by the Investor (in which case the cost of any currency conversion shall be borne by the Investor). Failing receipt of this payment, the application will be considered as cancelled or will be carried over to the immediately following Subscription Day, at which time Units will be issued to the Investor at the price determined on the next following Subscription Day.

## **11.2 Evergreen Split**

As at the Evergreen Option Date, the AIFM will segregate the assets and liabilities of Gaia, other than any assets which have already been allocated to the B Pool and to the D Pool, and allocate them into the A Pool and the C Pool. The allocation of assets and liabilities to

the two Pools will be *pro rata* to the value of A Units and C Units issued and outstanding. The allocation of each asset to be allocated to each Pool may be rounded at the discretion of the AIFM (in consultation, as the case may be, with the Management Company), acting in a commercially reasonable manner. Each Pool will be treated as a strictly separate sub-pool of assets and liabilities, different to the other sub-pools and subject to its own terms and conditions as set forth in this section 11 (the **Evergreen Split**).

### 11.3 Pool terms and conditions

Up to and until the Evergreen Option Date, the terms and conditions of any A Units and C Units will be identical. All the assets and liabilities of Gaia, save for any assets allocated to the B Pool and to the D Pool pursuant to section 14, will thus constitute a single sub-pool of assets within Gaia.

On the Evergreen Option Date, the AIFM will allocate the then existing assets and liabilities between the A Pool and the C Pool. The terms and conditions of the A Pool and the C Pool will differ as follows:

**A Pool:** after the Evergreen Option Date but before the beginning of the Amortization Period, the AIFM will, to the extent possible, reinvest the assets of the A Pool with a strategy to realize the A Pool during the Amortization Period. During the Amortization Period, the AIFM may also undertake short term reinvestments.

**C Pool:** the AIFM will continue to manage the C Pool in accordance with the original investment policy of Gaia for an unlimited duration.

### 11.4 Issue Price per Unit

- (a) The Issue Price per A Unit to be issued will correspond to the NAV per Unit as applicable as at the relevant Subscription Day, in respect of which the application for subscription in Gaia is received by the Administrative Agent, plus, in the sole discretion of the Management Company, (i) a Subscription Charge of up to five (5) per cent of the NAV per Unit (it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limit), and/or (ii) an Anti-Dilution Levy of up to ten (10) per cent of the NAV per Unit, to the benefit of Gaia or, after the Evergreen Option Date, to the benefit of the A Pool. The NAV taken as the basis of the settlement of the subscription order is therefore not known when the order is placed (*forward pricing*).

Units I-A, Units III-A and Units V-A are “capitalization” Units – profits and proceeds will be reinvested for the benefit of the holders of the relevant Units. Units II-A, Units IV-A and Units VI-A are “distribution” Units – profits and proceeds may be distributed or not, in whole or in part, at the absolute discretion of the Management Company, to the holders of the Units from time to time. Investors should note that, due to the

distribution of profits and proceeds on the “distribution” Units, the NAV per Unit of the “capitalization” Units should, in principle, be higher and the “capitalization” Units should offer more growth.

- (b) The Issue Price per C Unit to be issued will correspond to the NAV per C Unit as applicable as at the relevant Subscription Day, in respect of which the application for subscription in Gaia is received by the Administrative Agent, plus, in the sole discretion of the Management Company, (i) a Subscription Charge of up to five (5) per cent of the NAV per Unit (it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limit), and/or (ii) an Anti-Dilution Levy of up to ten (10) per cent of the NAV per Unit, to the benefit of Gaia or, after the Evergreen Option Date, to the benefit of the C Pool. The NAV taken as the basis of the settlement of the subscription order is therefore not known when the order is placed (*forward pricing*).

Units I-C, Units III-C and Units V-C are “capitalization” Units – profits and proceeds will be reinvested for the benefit of the holders of the relevant Units. Units II-C, Units IV-C and Units VI-C are “distribution” Units – profits and proceeds may be distributed or not, in whole or in part, at the absolute discretion of the Management Company, to the holders of the Units from time to time. Investors should note that, due to the distribution of profits and proceeds on the “distribution” Units, the NAV per Unit of the “capitalization” Units should, in principle, be higher and the “capitalization” Units should offer more growth.

- (c) Subject to the prior information and authorization by the *Commission de Surveillance du Secteur Financier*, and either pursuant to the fast track or regular procedure for the creation of side-pockets, non redeemable B Units will, at the sole discretion of the Management Company, be issued to existing Investors only, *pro rata* to their then current interest in the relevant A Units, on each occasion when an asset of Gaia (or, after the Evergreen Option Date, of the A Pool) becomes illiquid or is deemed by the Management Company or the AIFM to be an illiquid asset.

Up to and until the Evergreen Option Date, each such illiquid asset will be allocated to the B Pool on a *pro rata* basis (i.e. based on the value of A Units issued and outstanding over the total value of A Units and C Units issued and outstanding as of the relevant date). Each illiquid asset will be accounted for separately within the B Pool and each B Unit issued in respect of each such illiquid asset will track the performance of the relevant asset until a valuation or liquidity event occurs.

B Units will be issued pursuant to an A-B Conversion (as described under section 14. of this Supplement), at a fixed Issue Price per Unit as follows:

- Units I-B: USD 1,000 (one thousand United States Dollars);
- Units II-B: USD 1,000 (one thousand United States Dollars);

- Units III-B: EUR 1,000 (one thousand Euros);
- Units IV-B: EUR 1,000 (one thousand Euros);
- Units V-B: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-B: CHF 1,000 (one thousand Swiss Francs).

Each B Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Gaia, to be allocated thereto as at the Net Asset Value of the relevant B Unit determined at the date of the relevant valuation or liquidity event.

- (d) Subject to the prior information and authorization by the *Commission de Surveillance du Secteur Financier* and either pursuant to the fast track or regular procedure for the creation of side-pockets, non redeemable D Units will, at the sole discretion of the Management Company, be issued to existing Investors only, *pro rata* to their then current interest in the relevant C Units, on each occasion when an asset of Gaia (or, after the Evergreen Option Date, of the C Pool) becomes illiquid or is deemed by the Management Company or the AIFM to be an illiquid asset.

Up to and until the Evergreen Option Date, each such illiquid asset will be allocated to the D Pool on a *pro rata* basis (i.e. based on the value of C Units issued and outstanding over the total value of A Units and C Units issued and outstanding as of the relevant date). Each illiquid asset will be accounted for separately within the D Pool and each D Unit issued in respect of each such illiquid asset will track the performance of the relevant asset until a valuation or liquidity event occurs. D Units will be issued pursuant to a C-D Conversion (as described under section 14. of this Supplement) at a fixed Issue Price per Unit as follows:

- Units I-D: USD 1,000 (one thousand United States Dollars);
- Units II-D: USD 1,000 (one thousand United States Dollars);
- Units III-D: EUR 1,000 (one thousand Euros);
- Units IV-D: EUR 1,000 (one thousand Euros);
- Units V-D: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-D: CHF 1,000 (one thousand Swiss Francs).

Each D Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Gaia, to be allocated thereto as at the Net Asset Value of the relevant D Unit determined at the date of the relevant valuation or liquidity event.

## 12 TRANSFER OF UNITS

Transfers of Units in Gaia shall be subject to the rules set forth in section 12 of the Issuing Document.

## 13 REDEMPTION OF UNITS

- (a) Subject to the limitations set forth in paragraph e) below, Gaia shall redeem all or part of the A Units and/or C Units of an Investor upon request of such Investor as specified in a qualifying Redemption Notice delivered to the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point, otherwise such application shall be deemed to have been received for purposes of a redemption at a price to be determined on the next following Redemption Day.
- (b) A and C Units will be redeemed, as of a Redemption Day, at a price equal to the NAV per Unit of such Class, Sub-Class and Series as applicable as at the relevant Redemption Day, less (i) a Redemption Charge of up to five (5) per cent of the NAV per Unit (it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limit), and/or (ii) an Anti-Dilution Levy of up to ten (10) per cent of the NAV per Unit, to the benefit of Gaia or, after the Evergreen Option Date, to the benefit of the A Pool and/or the C Pool, as applicable (the **Redemption Price**). The NAV taken as the basis of the settlement of the redemption order is therefore not known when the order is placed (*forward pricing*).
- (c) The payment of the Redemption Price shall be made within three (3) Business Days after the Redemption Day. Payment will be made by wire transfer.
- (d) B Units may not be redeemed upon request of Investors but will be compulsorily redeemed, and the proceeds applied for purposes of a B-A Conversion, as described under section 14. of this Supplement, on each occasion when a relevant asset is realized or deemed realized, or becomes liquid at the sole discretion of the Management Company or the AIFM and A Units of the corresponding Class, Sub-Class and Series will be issued to each relevant Investor at the last available NAV per A Unit of the relevant Class, Sub-Class and Series. For the avoidance of doubt, in the event that one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the B Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of B Units will be distributed to the holders of such Sub-Classes of B Units.
- (e) D Units may not be redeemed upon request of Investors but will be compulsorily redeemed, and the proceeds applied for purposes of a D-C Conversion, as described under section 14., on each occasion when a relevant asset comprised within the D Pool is realized or deemed realized, or becomes liquid at the sole discretion of the Management Company or the AIFM and C Units of the corresponding Class, Sub-

Class and Series will be issued to each relevant Investor at the last available NAV per C Unit of the relevant Class, Sub-Class and Series. For the avoidance of doubt, in the event that one or more Sub-Classes of C Units are no longer outstanding at the time when an asset comprised within the D Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of D Units will be distributed to the holders of such Sub-Classes D Units.

- (f) Up to and until the Evergreen Option Date, if in relation to any Redemption Day, the value of the aggregate number of A Units, if any, and C Units, if any, to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than ten (10) per cent. of Gaia's Net Asset Value published as at the latest previous Valuation Point (the **Threshold**), the Management Company may decide that such requests for redemption in excess of the Threshold will be automatically deferred proportionally to the next Redemption Day (the **Deferred Redemptions**), provided with respect to each Redemption Day, each Investor will not be authorized to submit a Redemption Notice for an amount greater than the Threshold except if it is expressly accepted by the Management Company. If an Investor submits a Redemption Notice for an amount greater than the Threshold, the amount indicated in such Redemption Notice will be deemed to be the Threshold and the portion of the redemption request of such Investor in excess of the Threshold will not be automatically deferred in full to the next Redemption Day but shall be deferred only for a portion of such redemption request lower than or equal to the Threshold. In relation to each next Valuation Point, Deferred Redemptions will not be met in priority to redemption requests made on such next Valuation Point; i.e. the Threshold will be applied *pro-rata* (including, for the avoidance of doubt, Deferred Redemptions), unless otherwise decided by the Management Company.

After the Evergreen Option Date, the Threshold will be applied separately to the total number of A Units, on the one hand and to the total number of C Units, on the other hand. Accordingly:

- if in relation to any Redemption Day, the value of the total number of A Units to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than ten (10) per cent. of the Net Asset Value of the A Pool published as at the latest previous Valuation Point, the Management Company may decide to apply the mechanism above described but only within the A Pool; and
  - if in relation to any Redemption Day, the value of the total number of C Units to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than ten (10) per cent. of the Net Asset Value of the C Pool published as at the latest previous Valuation Point, the Management Company may decide to apply the mechanism above described but only within the C Pool.
- (g) The Management Company may in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation



with the AIFM, that disposal or valuation of a portion of the assets of Gaia, i.e., of the assets allocated to any of its Pools, is not reasonably practicable without being detrimental to the interests of the Investors i.e., directly participating in the relevant Pool(s), if applicable) delay any redemption request for up to thirty-six (36) months, if the redemption of Units is not in the best interests of Gaia, i.e., the relevant Pool(s).

- (h) The Management Company generally expects to distribute cash to the Investors in satisfaction of redemption requests, provided, however, that under certain circumstances (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Gaia prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.

## **14 CONVERSION OF UNITS**

Subject to the prior approval of the Management Company, Units of Gaia may be converted into Units of another Sub-fund of the Fund and Units of any other Sub-fund of the Fund may be converted into Units of Gaia.

Conversions into other Unit Classes of Gaia will only be allowed in accordance with the following rules:

### **14.1 Conversions initiated by Investors**

#### **Conversion of Units within other Unit Class in favor of an Investor**

Upon receipt by the Administrative Agent of (i) a duly completed conversion request form or any other written notification acceptable to the Administrative Agent and (ii) a duly completed transfer form together with any other documentation that may be requested by the Administrative Agent from time to time, a conversion of Units within another Unit Sub-Class in favor of an Investor may be accepted by the Management Company (each such conversion a **Unit Sub-Class Conversion**).

The application for such a Unit Class Conversion within a specific Class must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling five (5) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.

#### **Conversion of Series within a specific Sub-Class in favor of an Investor**

Upon receipt by the Administrative Agent of a duly completed conversion request form or other written notification acceptable to the Administrative Agent and the transfer form duly completed together with any other documentation that may be requested by the

Administrative Agent from time to time, a conversion of Series within a specific Sub-Class in favor of an Investor may be accepted by the Management Company (each such conversion a **Series Conversion**).

The application for such a Series Conversion within a specific Sub-Class must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.

## 14.2 Conversions imposed to Investors

### A-B Conversion, C-D Conversion, B-A Conversion and D-C Conversion

1. Up to and until the Evergreen Option Date, in case one or more assets of Gaia become illiquid or are deemed by the Management Company or the AIFM to be illiquid assets, up to twenty (20) per cent of the aggregate amount of A Units and C Units issued and outstanding may be compulsorily redeemed by the Management Company, in which case the redemption proceeds of such redemption shall be applied to purchase the corresponding Sub-Class of (i) B Units (i.e. the relevant Sub-Class of Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B (as the case may be)) at the fixed Issue Price set forth in section 11.2 c. in the case of a conversion of A Units (each such conversion a **A-B Conversion**) and (ii) D Units (i.e. the relevant Sub-Class of Units I-D, Units II-D, Units III-D, Units IV-D, Units V-D and Units VI-D (as the case may be)) at the fixed Issue Price set forth in section 11.2 c. in the case of a conversion of C Units (each such conversion a **C-D Conversion**). The allocation of illiquid assets to the B Pool and to the D Pool will be *pro rata* to the value of A Units and C Units issued and outstanding.
2. After the Evergreen Option Date, in case one or more assets within the A Pool becomes illiquid or are deemed by the Management Company or the AIFM to be illiquid assets, up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily redeemed by the Management Company, in which case the redemption proceeds of such redemption shall be applied to purchase the corresponding Sub-Class of B Units (i.e. the relevant Sub-Class of Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B (as the case may be)) at the fixed Issue Price set forth in section 11.2 c. (each such conversion shall also be referred to as a **A-B Conversion**).
3. After the Evergreen Option Date, in case one or more assets within the C Pool becomes illiquid or are deemed by the Management Company or the AIFM to be illiquid assets, up to twenty (20) per cent of the aggregate amount of C Units issued and outstanding may be compulsorily redeemed by the Management Company, in which case the redemption proceeds of such redemption shall be applied to purchase the corresponding Sub-Class of D Units (i.e. the relevant Sub-Class of Units I-D, Units II-D, Units III-D, Units IV-D, Units V-D and Units VI-D (as the case may be)) at the fixed Issue

Price set forth in section 11.2 c. (each such conversion shall also be referred to as a **C-D Conversion**).

4. On each occasion on which an asset allocable to the B Units is realized or deemed realized, or becomes liquid, at the sole discretion of the Management Company or the AIFM, the process described in sub-sections 1. and 2. above will be reversed, i.e., the relevant B Units will be compulsorily redeemed by the Management Company and the redemption proceeds will be applied to purchase the corresponding Sub-Class of A Units at the then last available NAV per Unit, on behalf of the Investor (each such conversion a **B-A Conversion**). For the avoidance of doubt, in the event that (i) one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the B Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of B Units will be distributed to the holders of such Sub-Classes of B Units.
5. On each occasion on which an asset allocable to the D Units is realized or deemed realized, or becomes liquid, at the sole discretion of the Management Company or the AIFM, the process described in sub-sections 1. and 3. above will be reversed, i.e., the relevant D Units will be compulsorily redeemed by the Management Company and the redemption proceeds will be applied to purchase the corresponding Sub-Class of C Units at the then last available NAV per Unit, on behalf of the Investor (each such conversion a **D-C Conversion**). For the avoidance of doubt, in the event one or more Sub-Classes of C Units are no longer outstanding at the time when an asset comprised within the D Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of D Units will be distributed to the holders of such Sub-Classes of D Units.

Upon any A-B Conversion, C-D Conversion, B-A Conversion or D-C Conversion as herein envisaged, the Management Company will notify each Investor whose Units have been so converted of the fact within 5 (five) Business Days of the date of the conversion.

## 15 BASE CURRENCY

The NAV per Unit of each Sub-Class of Gaia shall be expressed in the Base Currency of the relevant Sub-Class.

## 16 VALUATION AND NET ASSET VALUE CALCULATION

The valuation and calculation of the Net Asset per Unit will be effected as provided for in the Fund Documents.

In connection with certain securities or derivatives for which no external pricing information is available, the AIFM may, for purposes of valuing such securities or derivatives, rely on internal assumptions or financial pricing models (the **Relevant Mark-to-Model Valuation**).

## 17 FEES AND EXPENSES

### 17.1 Management Fee

The Management Company will be entitled to receive a Management Fee which will be paid monthly in arrears and based on the gross asset value as of the Valuation Point of each month.

The maximum Management Fee will be equal to two (2) per cent. (exclusive of VAT, if due) per annum of the total gross asset value of Gaia as at the relevant month end.

The amount of Management Fees may differ between Sub-Classes and Series.

### 17.2 Performance Fee

The Management Company is entitled to a performance fee (a **Performance Fee**), which will be calculated in respect of each reference period (each a **Reference Period**).

The first Reference Period starts on the Initial Subscription Day (inclusive) and ends on 31 December, 2010. The subsequent Reference Periods correspond to Gaia's accounting year and shall commence on 1 January and end on 31 December of each year.

The Management Company may decide, in its sole and absolute discretion, to waive the application of the Performance Fees in relation to certain Sub-Classes and Series.

**Performance Calculation Day:** on any Valuation Point, if the Out-Performance (as defined below) is positive, a performance fee provision amounting to fifteen (15) per cent. of the Out-Performance is retained. If the Out-Performance is positive but lower than that of the previous Valuation Point, this provision is adjusted through write-backs up to the total of existing provisions.

The **Out-Performance** is defined as:

- up to and until the Evergreen Option Date, the difference between Gaia's NAV net of all fees and costs but accrued Performance Fees, and the net asset value of a benchmark fund, which performance is equal to the performance of the benchmark index (the **Benchmark Fund**);
- after the Evergreen Option Date:
  - with respect to A Units, the difference between the NAV of the A Pool net of all fees and costs but accrued Performance Fees, and the net asset value of a benchmark portfolio, which performance is equal to the performance of the benchmark index (the **Benchmark A Pool**); and

- with respect to C Units, the difference between the NAV of the C Pool net of all fees and costs but accrued Performance Fees, and the net asset value of benchmark portfolio, which performance is equal to the performance of the benchmark index (the **Benchmark C Pool**).

The following has to be replicated in the **Benchmark Fund**:

- the same variation of subscriptions as the A Units and the C Units;
- in case of redemptions or distribution payments, the Benchmark Fund value is reduced according to the following ratio: amount redeemed or distributed divided by the total NAV of Gaia.

The following has to be replicated in the **Benchmark A Pool**:

- the same variation of subscriptions as the A Units;
- in case of redemptions or distribution payments, the Benchmark A Pool value is reduced according to the following ratio: amount redeemed or distributed divided by the total NAV of the A Pool.

The following has to be replicated in the **Benchmark C Pool**:

- the same variations of subscriptions as the C Units;
- in case of redemptions or distribution payments, the Benchmark C Pool value is reduced according to the following ratio: amount redeemed or distributed divided by the total NAV of the C Pool.

At the end of the Reference Period, provided that a performance fee provision is retained, Performance Fees are paid to the Management Company. Up to and until the Evergreen Option Date, the Benchmark Fund's value is then adjusted to that of Gaia's NAV for the following Reference Period. After the Evergreen Option Date, (i) the Benchmark A Pool's value is then adjusted to that of the NAV of the A Pool for the following Reference Period, and (ii) the Benchmark C Pool's value is then adjusted to that of the NAV of the C Pool for the following Reference Period. If no provision remains at the end of the Reference Period, no Performance Fee is paid to the Management Company, and the Benchmark Fund's value (or, after the Evergreen Option Date, the Benchmark A Pool's value and/or the Benchmark C Pool's value) is kept unchanged for the following Reference Period.

In case of redemption of Units or distribution payments, a proportion of the Performance Fee provision will be paid to the Management Company at the time of such redemption or distribution payment (as applicable), corresponding to (i) the ratio of the amount of Units redeemed divided by the total number of Units of the relevant Class in case of a redemption and/or (ii) (a) up to and until the Evergreen Option Date, the ratio of the amount distributed divided by the total NAV of Gaia or (b) after the Evergreen Option Date, the ratio of the amount distributed with respect to the A Units divided by the NAV of the A Pool and/or the

ratio of the amount distributed with respect to the C Units divided by the NAV of the C Pool, as applicable, in case of distribution payments.

A Performance Fee, once accrued and/or paid, will not be returned to Gaia, irrespective of subsequent losses.

From January 1<sup>st</sup>, 2023, **included**, the **Benchmark Index** is equal to

- the SOFR Compound Rate + 200 basis points net for Classes of Units denominated in USD;
- the 1-month Euro Interbank Offered Rate (Euribor) rate + 200 basis points net for Classes of Units denominated in EUR;
- the SARON 1-month Compound Rate + 200 basis points net for Classes of Units denominated in CHF;
- the SORA 1-month Compound Rate + 200 basis points net for Classes of Units denominated SGD.

With respect to Sub-Classes of Units which are not denominated in USD, EUR, CHF or SGD, the Benchmark Index will be determined by the Management Company on a case by case basis.

### **17.3 Value added taxes**

All fees and expenses payable by Gaia as set out above are exclusive of value added taxes or other charges. Gaia shall pay all value added taxes or other charges as required.

## **18 PUBLICATION OF THE NET ASSET VALUE**

The NAV per Unit as well as the Issue Price and Redemption Price are available at the registered office of the Management Company on the day falling no later than seven (7) Business Days after each Valuation Point.

## **19 FINANCIAL YEAR, AUDIT AND REPORTING**

### **19.1 Financial Year**

Other than the first and the last Financial Year, Gaia's Financial Year begins on 1 January of each year and ends on 31 December of the same year. The first Financial Year of Gaia begins on the establishment of the Fund and ends on 31 December 2010. The last Financial Year of Gaia begins on 1 January of the relevant year and ends on the date of the final liquidation distribution of Gaia.

## **19.2 Reporting**

In addition to the annual report, the AIFM shall periodically prepare a status report on Gaia's investments and activities during the applicable period.

The Management Company and/or AIFM may establish such further reports as deemed necessary or useful.

## **20 DISTRIBUTIONS**

Regarding the distribution Units, the Management Company envisages making distributions during the life of Gaia, as determined in its sole discretion.

Distributions, if any, shall always be made in cash or in marketable securities.

## **21 INVESTMENT RISKS RELATED TO GAIA**

### **21.1 General**

An investment in Gaia involves certain risk factors and considerations relating to Gaia's structure and investment objective which prospective Investors should evaluate before making a decision to invest in Gaia. No assurance can be given that Gaia will succeed in meeting its investment objective or that there will be any return on capital. Moreover, past performance is not a guarantee of future results.

In particular, the Management Company is empowered to charge a Subscription Charge of up to five (5) per cent. of the NAV per Unit, a Redemption Charge of up to five (5) per cent. of the NAV per Unit and an Anti-Dilution Levy of up to ten (10) per cent of the NAV in relation to each issue and redemption of Units. Except if the Management Company decides otherwise, the maximum value which may be redeemed on each Redemption Day is limited to ten (10) per cent. of the NAV published as at the latest previous Valuation Point. Up to and until the Evergreen Option Date, up to twenty (20) per cent of the aggregate amount of A Units and C Units issued and outstanding may be compulsorily converted into (i) non-redeemable B Units in case of a conversion of A Units and (ii) non redeemable D Units in case of a conversion of C Units, in the event that one or more assets become illiquid. After the Evergreen Option Date (i) up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable B Units in case one or more assets of the A Pool become illiquid and (ii) up to twenty (20) per cent of the aggregate amount of C Units issued and outstanding may be compulsorily converted into non-redeemable D Units in case one or more assets of the C Pool become illiquid.

Before making any investment decision with respect to the Units, any prospective Investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below. The following is a brief description of certain factors, which should be considered along with other matters

discussed elsewhere in the Issuing Document. The following does however, not purport to be a comprehensive summary of all the risks associated with an investment in Gaia generally. Rather, the following are only certain particular risks to which Gaia is subject and that Gaia wishes to encourage prospective Investors to discuss in detail with their professional advisors.

An investment in Gaia requires a medium to long term commitment and there can be no assurance that Gaia will achieve its investment objective or that the Investors will receive any return or the return of their invested capital.

While the prospective Investor should make its own evaluation of the risks of investing in Gaia, it must consider, among other things, the following matters before making a decision to invest in Gaia.

Units require a medium to long-term commitment and are only redeemable subject to the terms disclosed. Prospective Investors should therefore be aware that they may be required to bear the financial risks associated with any investment in Gaia as long as they maintain their investment.

Financing strategies by Gaia may exacerbate the effect on the value of falls and rises in the value of Gaia's assets and falls in value may consequently affect Gaia's liquidity.

Any borrowing extended to Gaia may be terminated in circumstances including without limitation the following:

- (a) the amount of sums drawn exceeding specified proportions of the realization value of the assets;
- (b) an event occurs which will adversely affect the business, assets or financial condition of Gaia or its ability to comply with its obligations towards any lender. The availability of Gaia's financing facilities and its liability to repay sums is, therefore, subject to circumstances beyond Gaia's control, including movements in the value of its assets.

A termination of any financing facility as described above may have an adverse effect on an investment in any Units and may require assets to be sold prematurely or at a discount to market value.

Charges and expenses in connection with Gaia are not made uniformly throughout the life of Gaia and it is possible that an Investor may not receive back the full amount of its investment.

Gaia may be required to give security for its obligations in respect of any financing arrangement. Any enforcement of such security interest is likely to have an adverse effect on all the Units.



## **21.2 Recent Economic Events**

The global economy is currently experiencing a crisis in the credit markets as well as a general downturn and, in certain countries, a recession. Among the sectors that are experiencing particular difficulty due to current economic conditions are the CDO, leveraged finance and investment fund markets.

There exist significant risks for Gaia and Investors as a result of such economic conditions. These risks include, among others, (i) the likelihood that Gaia will find it more difficult to sell any of its assets in the secondary market, thus rendering it more difficult to dispose of certain assets and (ii) the possibility that, on or after the date hereof, the price at which assets can be sold by Gaia will have deteriorated from their effective purchase price. These additional risks may materially adversely affect the returns on the Units to Investors.

The credit crisis has an increasing impact on the economies of a number of jurisdictions who are members of the Organization of Economic Co-operation and Development (OECD).

The bankruptcy or insolvency of a major financial institution may have an adverse effect on Gaia, particularly if such financial institution is a hedge counterparty to a swap involving Gaia, or a counterparty to a buy or sell trade that has not settled with respect to an asset with Gaia. As is the case with the Lehman Brothers bankruptcy proceedings, the bankruptcy or insolvency of another financial institution may result in the disruption of payments to Gaia. In addition, as was the case with Lehman Brothers and Bear Stearns, the bankruptcy or insolvency of one or more additional financial institutions may trigger additional crises in the global credit markets which could have a significant adverse effect on Gaia, its assets and the Units.

It is possible that one of the effects of the global credit crisis will be an introduction of a significantly more restrictive regulatory environment including the implementation of new accounting and capital adequacy rules in addition to further regulation of derivative instruments. Such additional rules and regulations could, among other things, adversely affect Investor as well as the flexibility of the AIFM in managing the assets of Gaia.

## **21.3 Risk on Cross-Pool Liabilities for all Unit Classes**

Although there is a contractual and accounting allocation of assets and liabilities to the relevant Pools, there is no legal segregation with respect to Pools of the same Sub-fund. Therefore, if the liabilities of a Pool exceed its assets, creditors of said Pool of Gaia may seek to have recourse to the assets allocated to the other Pools of Gaia.

As there is a contractual and accounting allocation of assets and liabilities without any legal segregation amongst Pools, a transaction relating to a Pool could affect the other Pools of Gaia.

## **21.4 Suitability**

Prospective purchasers of the Units should ensure that they understand the nature of such Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Units and that they consider the suitability of such Units as an investment in the light of their own circumstances and financial condition. An investment in Gaia should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

None of the Management Company or the AIFM or any of their respective affiliates makes any representation as to the proper characterization of the Units for investment or other purposes, as to the ability of particular investors to purchase Units for investment or other purposes under applicable investment restrictions or policies which may be applicable to them or as to the accounting, capital, tax and other regulatory or legal consequences of ownership of the Units. All institutions the activities of which are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Units are subject to any investment, capital or other restrictions.

## **21.5 Redemption Risk**

Investors may redeem Units in accordance with the terms of the Supplement. Large redemptions of Units might result in Gaia being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In addition, a significant redemption of Units may require Gaia to realize investments at values which are lower than the anticipated market values of such investments. This may cause a temporary imbalance in Gaia's portfolio, which may adversely affect the remaining Investors.

The Management Company is empowered to charge a Redemption Charge of up to five (5) per cent. of the NAV per Unit and an Anti-dilution Levy of up to ten (10) per cent. of the NAV in relation to each redemption of Units. Except if the Management Company decides otherwise, the maximum value which may be redeemed on each Redemption Day is limited to ten (10) per cent. of the NAV published as at the latest previous Valuation Point. Up to and until the Evergreen Option Date, up to twenty (20) per cent of the aggregate amount of A Units and C Units issued and outstanding may be compulsorily converted into (i) non-redeemable B Units in case of a conversion of A Units and (ii) non redeemable D Units in case of a conversion of C Units, in the event that one or more assets become illiquid. After the Evergreen Option Date (i) up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable B Units in case one or more assets of the A Pool become illiquid and (ii) up to twenty (20) per cent of the aggregate amount of C Units issued and outstanding may be compulsorily converted into non-redeemable D Units in case one or more assets of the C Pool become illiquid.

The Management Company may also, in consultation with the AIFM, temporarily suspend the determination of the Net Asset Value per Unit of Gaia and/or the issue and redemption of its Units under specific circumstances (including, without limitation, when the AIFM determines that the proportion of assets of Gaia valued under the Mark-to-Model Valuation represents a significant part of the total assets of Gaia).

The Management Company may also in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation with the AIFM, that disposal or valuation of a portion of the assets of Gaia is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of Units is not in the best interest of Gaia, i.e., a Pool.

Cash or securities may be distributed to redeeming Investors, as determined by the Management Company.

## **21.6 In-Kind Distributions**

The Management Company generally expects to distribute cash to the Investors in satisfaction of their redemption requests, provided, however, that under certain circumstances (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Gaia prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.

Such securities and instruments may not be readily marketable or sellable and may be required to be held by the Investor for an indefinite period of time. Investor receiving an in-kind distribution will be responsible for disposing of such distributed assets.

## **21.7 Investment Risk**

It should be remembered that the price of the Units can go down as well as up and that, on the redemption of their Units, Investors may not receive the amount that they originally invested.

**The return on the Gaia's assets will primarily be dependent upon the availability and market price at which they can be purchased at the time investments are made and the time it takes for the Gaia's assets to reach maturity.**

## **21.8 Illiquidity of the Investments**

The market prices of the assets of Gaia can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such assets may be greater than those prevailing in other securities market.

A portion of Gaia's portfolio will consist of securities and other financial instruments which are not actively and widely traded. In addition, many ILS and insurance-linked derivatives limit sales to investors in certain permitted jurisdictions. Consequently, it may be difficult for Gaia to dispose of such investments rapidly and at favorable prices in connection with redemption requests, adverse market developments or other factors. Illiquid securities may also be more difficult to value and may require pricing at Mark-to-Model Valuation as determined in good faith by the AIFM.

## **21.9 Unpredictability of Insured Events and Losses; Reliance on Catastrophe Risk Modeling**

Part of Gaia's investments is subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of Insured Events can be expected to result in volatility with respect to the Gaia's. A major loss or series of losses as a result of Insured Events may occur from time to time and, if affecting one or more of Gaia's investments, could result in material loss.

The results of analyses performed with models (provided by third party risk modeling firms or not), cannot be viewed as facts, projections, or forecasts of future losses and cannot be relied upon as an indication of the future return on the Gaia's investments. Actual loss experience can materially differ from that generated by such models.

Loss distributions produced by such models constitute estimated losses based on assumptions relating to, among other things, environmental, demographic and cost factors, many of which represent subjective judgments, are inherently uncertain and are beyond the control of the respective models agent (whether provided by third parties or not). The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge, alternative theories governing empirical relationships, and the random nature of Insured Events themselves. In addition, there can be no assurance that any or all of the risk modeling firms (if any) will continue to perform such analyses and, if so, the amount of resources dedicated to such efforts. No model of Insured Events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different risk modeling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to uncertainty. Professional risk modeling firms review their modeling assumptions from time to time in the light of new meteorological, engineering, and other data and information and refine their loss

estimates as such information becomes available. Such refinements may materially alter, and have in the past materially altered, the loss estimates currently generated by these models.

The loss probabilities generated by such models are not predictive of future events, or of the magnitude of losses that may occur. Actual frequency of Insured Events and their attendant losses could materially differ from those estimated by such models. Potential investors in Gaia should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Modeling insured losses resulting from Insured Events is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM or by risk modeling firms.

#### **21.10 Concentration of investments**

Gaia may at certain times hold relatively few investments. Gaia could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer or counterparty. Additionally, historical correlations may undergo dramatic change, thereby reducing expected diversification protection.

#### **21.11 Currency Risk**

Assets of Gaia may be denominated in a currency other than the Base Currency and changes in the exchange rate between the Base Currency and the currency of the asset may lead to a depreciation of the value of the Gaia's assets as expressed in the Base Currency. It may not be possible or practical to hedge against such exchange rate risk. The AIFM may, but is not obliged to, mitigate this risk by using financial instruments. Gaia may from time to time enter into currency exchange transactions either on a spot basis or by buying currency exchange forward contracts. Neither spot transactions nor currency exchange forward contracts eliminate fluctuations in the prices of a Gaia's securities or in foreign exchange rates, or prevent loss if the prices of these securities should decline. Performance of Gaia may be strongly influenced by movements in foreign exchange rates because currency positions held by Gaia may not correspond with the securities positions held. Gaia may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates or interest rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions. Although these transactions are intended to minimize the risk of loss due to a decline in the value of hedged currency, they also limit any potential gain that might be realized should the value of the hedged currency increase. The precise matching of the relevant contract

amounts and the value of the securities involved will not generally be possible because the future value of such securities will change as a consequence of market movements in the value of such securities between the date when the relevant contract is entered into and the date when it matures. The successful execution of a hedging strategy which matches exactly the profile of the investments of Gaia cannot be assured. It may not be possible to hedge against generally anticipated exchange or interest rate fluctuations at a price sufficient to protect the assets from the anticipated decline in value of the portfolio positions as a result of such fluctuations.

## **21.12 Swaps and Other Derivatives**

Gaia may enter into swap and similar derivative transactions involving or relating to Insured Events. A swap transaction is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) with payments generally calculated by reference to a principal ("notional") amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, Gaia is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which Gaia trades. The swap market is generally not regulated.

Speculative position limits are not applicable to swap transactions, although the counterparties with which Gaia deals may limit the size or duration of positions available to Gaia as a consequence of credit considerations.

Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.

## **21.13 Counterparty and Credit Risk**

Most of the markets in which Gaia may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such "over-the-counter" transactions. This exposes Gaia to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing Gaia to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties.

The ability of Gaia to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for

losses by Gaia. In addition, the counterparties with which Gaia effects transactions may, from time to time, cease making markets or quoting prices in certain of the instruments. In such instances, Gaia may be unable to enter into a desired credit default swap or currency transaction, or to enter into an offsetting transaction with respect to an open position, which might adversely affect its performance. Further, in contrast to exchange-traded instruments, credit derivative transactions and forward, spot and option contracts and swaps on currencies do not provide a trader with the right to offset its obligations through an equal and opposite transaction. For this reason, in entering into credit derivative transactions and forward, spot or options contracts or swaps, Gaia may be required, and must be able, to perform its obligations under the contract.

Most of the ILS derivatives, synthetic securities, credit default swaps, hedge agreements, currency hedge agreements, interest rate hedge transactions and securities lending agreements may involve Gaia entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to Gaia under certain circumstances. Gaia will be exposed to the credit risk of the counterparty with respect to any such payments.

#### **21.14 Ramp-up Period**

Because of the seasonnability of the ILS issuances and the relatively small size of the ILS primary and secondary markets, there can be no assurance that the AIFM will manage to source enough assets meeting its investment criteria enabling it to build a well-diversified portfolio during the ramp-up period of Gaia.

#### **21.15 Extension or Acceleration of Maturity**

ILS and derivatives often provide for an extension of maturity following the occurrence of an Insured Event to enable the insurer to process and audit loss claims where an Insured Event has, or possibly has, occurred. Alternatively, the maturity could in certain circumstances be accelerated upon the occurrence of certain legal, regulatory, credit or structural events. An extension or acceleration of maturity may increase volatility.

#### **21.16 Performance Fee**

The Performance Fee payable to the Management Company by Gaia may create an incentive for the Management Company to cause Gaia to make investments that are riskier or more speculative than would be the case if there was no such arrangement. In addition, because the Performance Fee is calculated on a basis that includes unrealized appreciation of Gaia's assets, it may be greater than if such compensation were based solely on realized gains.

## **21.17 Diverse Investors**

The Investors may have conflicting investment, tax and other interests with respect to their investments in the Gaia. The conflicting interests of individual Investors may relate to or arise from, among other things, the nature of Investments made by Gaia, the structuring or the acquisition of investments, the timing of disposition of investments and the timing an proportion of Units redeemed by each such Investor.

In particular, it is intended that at least one Investor will represent a substantial part of the Units in issue of Gaia. The other Investors will most likely be influenced by the behavior of such Investor and the redemption of its Units in Gaia, if requested, may have a material adverse effect on the other Investors.

## **21.18 U.S. Federal Income Tax Risks**

Issuers of ILS (**Issuers**) are typically special purpose companies (in some cases special purpose reinsurance companies) formed in Bermuda or the Cayman Islands. Issuers are formed and intend to operate in such a manner that would not cause them to be treated as engaged in the conduct of a trade or business within the United States. Such assessments are in certain instances supported by legal opinions that provide that, while there is no relevant authority and the analysis is highly factual, the Issuer would not be deemed to be so engaged under current U.S. federal income tax law. On this basis, the Issuer does not expect to be required to pay U.S. income tax with respect to its income. There can be no assurance, however, that the Internal Revenue Service (**IRS**) will not contend, and that a court would not ultimately hold, that the Issuer is engaged in the conduct of a trade or business within the United States. If the Issuer were deemed to be so engaged, it would, among other things, be subject to U. S. federal income tax, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business.

## **21.19 Regulatory Risks**

The sale of ILS are typically limited to investors in certain regulatory jurisdictions, including Bermuda and many U.S. jurisdictions, where legal opinions or regulatory rulings have been obtained generally to the effect that purchasers of such securities resident of, and purchasing in, such jurisdictions are not required, by virtue of their purchase of such securities, to be licensed as insurers or reinsurers under the insurance laws of such jurisdictions. Issuer's counsel typically provides an opinion to the Issuer that purchasers will not be considered or treated as carrying on or transacting insurance business solely by virtue of investing in or holding the securities.

Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority to modify or withdraw interpretations or to impose additional requirements. There can be no assurance that any opinions of counsel provided to an Issuer or regulatory rulings will continue to be effective or favorable to Gaia or that a modification in such legal opinions or regulatory rulings would not adversely affect Gaia. Furthermore,



with respect to ILS that are structured as derivative transactions, in particular those that are OTC derivative financial instruments, such instruments are typically marketed and promoted in a different manner than ILS, whereby the legal opinions and regulatory rulings that are typically obtained by, as well as the representations and warranties customarily made by, the issuers and promoters of such securities may not be available with respect to insurance linked derivatives.

#### **21.20 Certain Legal Risks associated with the Investments**

The investments of Gaia may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers of payments, lender liability and the power of a court, receiver or liquidator to disallow, reduce, subordinate or disenfranchise particular claims.

#### **21.21 Absence of Operating History of Issuers of ILS**

The Issuers of ILS are typically newly formed special-purpose vehicles organized for the sole purpose of issuing the ILS. As such, such Issuers often have no operating history.

#### **21.22 Financing Arrangements; Leverage**

Gaia may use leverage in its investment program when deemed appropriate by the AIFM and subject to a maximum leverage restriction of 100%. At times, the amount of such leverage may be substantial. Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. The more Gaia leverages itself, the more likely a substantial change will occur, either up or down, in the value of the Units of Gaia. Gaia may be subject to major losses in the event that large Insured Events force Gaia to liquidate positions at a disadvantageous time.

Through the use of repurchase agreements, total return swaps, bank loans and financing conduits, Gaia (subject to the availability of financing), will also be able to achieve a comparable degree of leverage on its "cash" securities positions. If loans to the Gaia are collateralized with portfolio securities that decrease in value, Gaia may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses.

As a general matter, the banks and dealers that provide financing to Gaia can apply essentially discretionary margin, haircut, financing and security and collateral valuation policies. Changes by banks and dealers in margin, haircut, financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. In addition, the dealers have essentially discretionary authority to close out credit lines. There can be no assurance that Gaia will be able to maintain adequate financing, particularly in adverse market conditions. If it is not able to do so, forced portfolio liquidations and significant losses could result.

### **21.23 Interest-Rate Risk**

The returns associated with the floating-rate securities in which Gaia may invest will be affected by changes in interest rates. Accordingly, if interest rates decline, the return of long positions in such securities will decline. Furthermore, if interest rates rise, the return of short positions in such securities will decline. In the event Gaia invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. The AIFM may hedge against such fluctuations in value but is not obligated to do so.

### **21.24 Lack of Volume of Insurance-Linked Securities**

The volume (both in terms of number and dollar) of deals involving ILS may not be sufficient for Gaia to invest the optimal amount of its assets in such instruments.

### **21.25 Valuation Risk**

Gaia may invest some of its assets in illiquid and/or unquoted securities and derivative instruments. Such investments and derivative instruments will be valued by the AIFM in accordance with the provisions set out in the Fund Documents.

Such investments are inherently difficult to value and are the subject of substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales or “close-out” prices of such investments and the procedures put in place may be unable to detect every error contained in the valuation information.

To the extent the information received by Gaia is inaccurate or unreliable, the valuation of Gaia's securities and derivatives may be inaccurate. Gaia expects that it will primarily hold securities that will not have readily assessable market values. In such instances, the AIFM will determine the fair value of such securities in good faith based on various factors.

In connection with certain securities or derivatives for which no external pricing information is available, the AIFM may rely on internal pricing models. Such Mark-to-Model Valuations may vary from similar valuations performed by independent third parties for similar types of securities or derivatives. The valuation of illiquid securities and derivatives is inherently subjective and subject to increased risk that the information utilized to value the security or derivative or to create the price models may be inaccurate or subject to other error. Inaccurate valuations may, among other things, prevent Gaia from effectively managing its investment portfolios and risks, may result in Gaia exceeding certain investment guidelines (if any) and may affect the diversification and risk management of Gaia's portfolios. The value of Gaia's portfolio may also be affected by changes in accounting standards, policies or practices.

Due to a wide variety of market factors and the nature of investments to be held or entered into by Gaia, there is no guarantee that the value determined by the Administrative Agent will represent the value that will be realized by Gaia on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

ILS in the form of securities are private securities which are not actively traded and valuation of these securities has been difficult over the past years.

In the event that the proportion of assets of Gaia which are valued under the Mark-to-Model Valuation represent a relevant part of the total assets of Gaia (as determined by the AIFM in its sole discretion), the Management Company may, in consultation with the AIFM, temporarily suspend the determination of the NAV of Gaia and/or the issue and redemption of its Units and/or convert A Units into non redeemable B Units.

#### **21.26 Risk related to Collateral Management**

Counterparty risk arising from investments in OTC financial derivative instruments is, subject to the applicable regulation, generally mitigated by the transfer or pledge of collateral in favor of Gaia. However, transactions may not be fully collateralized.

If a counterparty defaults, Gaia could realize a loss due, inter alia, to inaccurate pricing or monitoring of the collateral, adverse market movements, deterioration in the credit rating of issuers of the collateral or illiquidity of the market on which the collateral is traded.

Gaia may also incur a loss in reinvesting collateral received, where permitted. Such a loss may arise due to a decline in the value of the investments made.

Where permitted by the investment policy and subject to the applicable regulation, the Gaia's reuse of collateral received by it from its OTC derivative activity, within the limits set by applicable regulation, is likely to increase the Gaia's leverage and also increase the risks associated with the instruments into which cash collateral is invested, such as market risk, counterparty risk and liquidity risk.

#### **21.27 Risks Related to ILS Collateral**

The collateral backing the ILS that Gaia will acquire may include certain assets, the quality of which has not been thoroughly assessed by the AIFM. In the event of a deterioration of such collateral, Gaia will not be able to recover the principal amount invested in such ILS.

#### **21.28 Limited Number of Participants on the ILS Market**

There is currently a very limited number of active participants (i.e. banks, broker-dealers, investors) on the ILS market, therefore limiting, inter alia, the liquidity of the ILS in which Gaia may invest, the ability of Gaia to obtain various market quotations in relation to its investments, etc...

In addition, the bankruptcy of one of these participants will have material adverse consequences against Gaia and other market participants, the effect of which will be magnified as compared to less concentrated assets classes.

#### **21.29 Reliance on the AIFM and Dependence on Key Personnel**

Subject to the limitations set forth in this Supplement, the AIFM has complete discretion in directing the investment of Gaia's assets and the selection and negotiation of the derivatives agreements. Gaia's success depends, to a great extent, on the AIFM's ability to select investments and negotiate derivatives. Gaia will be highly dependent on the financial and managerial experience of the AIFM and a limited number of persons of the AIFM to whom the task of managing the investment has been assigned. If the services of all or a substantial number of such persons were to become unavailable, the result of such a loss of key management personnel could result in substantial losses for Gaia.

#### **21.30 Substantial Charges**

Gaia is subject to substantial charges, and must generate profits and income which exceed their fixed costs in order to avoid depletion of its assets. Gaia is required to pay the service provider fees, expenses and commissions regardless of its performance.

#### **21.31 Custodial Risk**

The Management Company has entered into arrangements pursuant to which Gaia's assets are held by the Depositary. The bankruptcy of such Depositary might have a material adverse effect on Gaia.

#### **21.32 Sustainability Risk**

Sustainability Risks in relation to the investments performed by the AIFM may arise in the social, environmental or governance areas.

In order to identify and manage these risks, the AIFM uses an integrated approach to Sustainability Risks based on a global set of policies and processes. Such framework is implemented to integrate the most material Sustainability Risks in investment decisions based on sustainability factors and relies notably on the following:

- **A general approach** with the **application of AXA IM Global ESG Policies** which results in the AIFM specifically limiting direct investment into particular sectors, companies and underlying assets on the basis that they are most exposed to specific risks with a focus on climate (Coal & tar sands), biodiversity (ecosystem protection and deforestation) and human rights (Controversial Weapons). These exclusion policies are also adapted for certain asset classes and may evolve over time.
- **A specific approach** with the integration of ESG factors in the investment decision process. Proprietary methodologies are implemented to conduct specific Sustainability Risk assessments based on ESG factors, notably during the investment due diligence phase for a contemplated investment. Depending on the type of investment and strategy, the assessment can be carried out on any or a combination of the following items, without limitation: the underlying asset (including

the issuer), the sector, the counterparty of the trade, the originator, servicer, or manager of underlying portfolio. For indirect investment, the due diligence covers, among ESG factors, the assessment of the exclusion policies implemented by the relevant counterparty, originator, servicer, or manager of underlying portfolio.

The AIFM does not guarantee that the investments made by Gaia are not subject to Sustainability Risks to any extent and there is no assurance that the Sustainability Risks assessment will be successful at capturing all Sustainability Risks for Gaia portfolio as a whole at any point in time. Investors should be aware that the assessment of the impact of Sustainability Risks on the performance of Gaia is difficult to predict and is subject to inherent limitations such as the availability and quality of the data.

If such Sustainability Risks materialize in respect of any investment, they may have a negative impact on the financial performance of the relevant investment and as a result on the performance of the Gaia portfolio as a whole and the financial returns to the Investors.

Given Gaia's investment strategy and risk profile, the likely impact of Sustainability Risks on Gaia returns is expected to be low.

**The investment risks set out in this Supplement do not purport to be exhaustive and potential Investors should be aware that an investment in Gaia may be exposed to risks of an exceptional nature from time to time.**

**22 PRE-CONTRACTUAL DISCLOSURE FOR THE FINANCIAL PRODUCTS REFERRED TO IN ARTICLE 8, PARAGRAPH 1,2 AND 2A, OF REGULATION (EU) 2019/2088 AND ARTICLE 6, FIRST PARAGRAPH OF REGULATION (EU) 2020/852**

Product name: GAIA (Sub-fund of the Luxembourg umbrella AXA IM Novalto)

(the "Financial Product")

Legal entity identifier: 2138007MG8JVJZZLWT47

**Sustainable**

**investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not



## Environmental and/or social characteristics

### Does this Financial Product have a sustainable investment objective?

☒ ☐ **Yes**

☐ It will make a minimum of **sustainable investments with an environmental objective**: \_\_\_\_%

☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ It will make a minimum of **sustainable investments with a social objective**: \_\_\_\_%

☒ ☐ **No**

It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_\_% of sustainable investments

☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ with a social objective

☒ It promotes E/S characteristics, but **will not make any sustainable investments**

Capitalised terms used but not defined in this document shall have the meaning given to them in section 1. DEFINITIONS of the Supplement to the Issuing Document of the Financial Product.

### What environmental and/or social characteristics are promoted by this Financial Product?

The Financial Product aims at promoting environmental and social characteristics within the meaning of Article 8 of SFDR through the integration of ESG consideration in its investment process as described in the paragraph below.

In that context, the Financial Product mainly promotes the following specific environmental and social characteristics,:

- Preservation of climate with the consideration in its ESG score of the sponsor's exposure to Coal and tar sand activities;
- Protection of ecosystem and prevention of deforestation with the consideration in its ESG score of the sponsor's exposure to palm oil;
- Better health with an exclusion on Tobacco companies and the consideration in its ESG score of the sponsor's exposure to this activity;
- Labor rights, society and human rights, business ethics, anti-corruption with an exclusion on companies involved in the trade of Controversial Weapons or in violation of international norms and standards such as the United Nations Global Compact Principles, International Labor Organization's (ILO) Conventions or the OECD guidelines for Multinational Enterprises. The AIFM also takes into consideration in the Financial Product's ESG score the sponsor's exposure to companies active in the trade of Controversial Weapons and its involvement with such international standards.

Furthermore, as part of the due diligence process undertaken by the AIFM in order to select investment opportunities for the Financial Product, the AIFM shall use commercially reasonable efforts to take into account ESG considerations that are relevant to each investment of the Financial Product, primarily by performing at the time of investment an ESG scoring and analysis on the investments (hereinafter, the **"ESG Scoring Process"**) based on a proprietary methodology.

- 1- The purpose of the ESG Scoring Process is to evaluate each investment with respect to certain ESG criteria selected by the AIFM in its discretion, in each case based on the information available to the AIFM during the investment process (including by collecting questionnaires-based information). For the ILS investments

In determining the ESG Scoring Process for the ILS investments, the AIFM shall aim to assess the outcome from an ESG perspective of the application of the ESG approach of notably the ILS Sponsor as an operating company, considering factors such as, without limitation, the environmental impact of the ILS Sponsor as a corporate through its carbon footprint, the quality of social relations within the firm through the promotion of employee diversity and the existence of a robust governance in relation to ethical matters, the selection of the assets held in a collateral account to secure the payments obligations under the ILS and any other outcome which the AIFM considers relevant.

The AIFM shall take into account factors such as, without limitation, the application by the ILS Sponsors of sectorial exclusions policies (e.g., climate risks, ecosystem protection & deforestation, Soft Commodities, Controversial Weapons, etc.).

When computing the ESG Scoring Process for an ILS, the relevance and importance of each factor shall be assessed on a 0 to 10 scale and the ILS will be assigned a global scoring ranging from 0 to 10 based on the aggregation of the input for each factor. The AIFM shall determine, in its discretion, the weighting of each assessed factor and the weighting of each score attributed to the ILS Sponsor and to the portfolio (i.e., collateral assets under the ILS) and/or the underlying ultimate beneficiary of the ILS respectively.

While such methodology will allow the AIFM to weight each factor when determining the ESG score of the ILS, the weighting of each assessed factor shall be applied consistently to all ILS within the Financial Product Portfolio.

## 2- For the short-term liquid assets and money market instruments

As part of the due diligence undertaken by the AIFM in order to select the investment opportunities of the Financial Product, the AIFM will take into account the ESG considerations considered by the AIFM as relevant for each investment mainly by carrying out at the time of the investment an evaluation with regard to certain ESG criteria selected at the discretion of the AIFM, in each case on the basis of the information available to the AIFM during the investment process (including by collecting information on the basis of questionnaires), in order to determine, according to the ESG Scoring Process, an ESG score on a scale ranging from 0 to 10.

**At the level of the Financial Product**, the ESG scores for the ILS and the short-term liquid assets and money market instruments shall be aggregated in order to have a synthetic view of the ESG score of the entire Financial Product's portfolio. While the AIFM reserves the right to adjust from time to time and without notice the ESG Scoring Process, the ESG criteria taken into account, its processes and analyses, in order to better adapt them to its ESG objectives, the ESG Scoring Process shall be applied consistently to all investments comprised within the Financial Product's portfolio and any such adjustments shall ensure that the application of the ESG Scoring Process remains comparable through the lifecycle of the Financial Product.

While the AIFM will aim at performing its ESG Scoring Process with reasonable care, based on available data and relevant proxies and estimates, any assessment of the promotion of environmental or social characteristics by the AIFM is necessarily indicative and subjective.

No reference benchmark has been designated for the purpose of attaining the environmental and social characteristics promoted.

**Sustainability indicators** measure how the environmental or social characteristics promoted by the Financial Product are attained.

### ● ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this Financial Product?***

As of the date of the Supplement to the Issuing Document, the AIFM intends to monitor the following sustainability indicators to measure the attainment of the environmental or social characteristics promoted by the Financial Product:

- the proportion of the investments comprised within the Financial Product's portfolio that have been granted an ESG score by the AIFM,
- the proportion in the Financial Product's portfolio of ILS, for which an ESG score has been granted by the AIFM, having an ESG score greater than 5 according to the ESG Scoring Process;
- the proportion in the Financial Product's portfolio of the ILS, for which an ESG score has been granted by the AIFM, having an ESG score greater than 1.43 according to the ESG Scoring Process;
- the proportion in the Financial Product's portfolio of the ILS Sponsors having put



in place an active program to limit its carbon footprint or have adhered to the Greenhouse gas (“GHG”) reduction related program such as the “Net-Zero Insurance Alliance” initiative following the twenty-first session of the Conference of the Parties (“COP 21”) or to any equivalent program; and

- the proportion in the Financial Product of ILS under which ILS Sponsors meet, at the time of investment and in the AIFM ’s reasonable discretion based on its knowledge at the relevant time, the criterion that the ILS Sponsor has implemented at least one (1) (out of three (3)) of the following actions as an operating fund:
  - having signed, adhered to or being otherwise subject to a recognized international standard regarding responsible investment (UN PRI, UK StewardShip or equivalent);
  - having put in place an active program to limit its carbon footprint or net-zero carbon initiative or Co2 reduction by 2030-2050; or
  - having put in place an active program to develop inclusion and diversity amongst its employees.

the (“ESG Eligibility Criterion”).

● ***What are the objectives of the sustainable investments that the Financial Product partially intends to make and how does the sustainable investment contribute to such objectives?***

The Financial Product promotes environmental and/or social characteristics, but will not make any sustainable investments within the meaning of the SFDR, this question is therefore not applicable to the Financial Product.

● ***How do the sustainable investments that the Financial Product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The Financial Product promotes environmental and/or social characteristics but will not make any sustainable investments within the meaning of the SFDR, this question is therefore not applicable to the Financial Product.

● ***How have the indicators for principal adverse impacts on sustainability factors been taken into account?***

The Financial Product promotes environmental and/or social characteristics but will not make any sustainable investments within the meaning of the SFDR, this question is therefore not applicable to the Financial Product.

● ***How are the sustainable investments aligned with the OECD, Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:***

The Financial Product promotes environmental and/or social characteristics but will not make any sustainable investments within the meaning of the SFDR, this question is therefore not

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

applicable to the Financial Product.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the Financial Product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this Financial Product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



**Does this Financial Product consider principal adverse impacts on sustainability factors?**

Yes, ☒

No ☐

Principal adverse impacts (“PAI”) are considered with both (i) qualitative and (ii) quantitative approaches:

*(i) Qualitative approach*

Qualitative approach to consider principal adverse impact is based on exclusion on direct investments. Exclusion policies according to the AXA IM Global ESG Policies as part of the AXA IM exclusions policies and sectorial exclusions cover the most material sustainability factors’ risks and are applied bindingly on a continuous basis.

Exclusion policies according to the AXA IM Global ESG Policies:

- Sectorial exclusions: climate risks, ecosystem Protection & deforestation, Soft Commodities, Controversial Weapons;
- AXA IM exclusions policies on Tobacco, white phosphorus weapons, UNGC violations, human rights.

*(ii) Quantitative approach*

Principal adverse impacts are also considered quantitatively through the measurement and annual report of the following principal adverse impacts:

- GHG intensity - (PAI 3); and

- Exposure to Controversial Weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) - (PAI 14)

Exclusions policies according to the AXA IM Global ESG Policies are applicable on direct investments and have specific limitations of application on alternative investments.

Additionally, the AIFM is measuring and incorporating several ESG indicators, directly in its ESG Scoring Process with the objective to identify, assess and monitor principal adverse impact on sustainability factors.

The AIFM will use its reasonable efforts to collect all mandatory above-mentioned PAIs.

Information on principal adverse impacts on sustainability factors considered by the Financial Product is available in the Financial Product's financial annual report.



### **What investment strategy does this Financial Product follow?**

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance

As part of the due diligence process undertaken by the AIFM in order to select investment opportunities for the Financial Product, the AIFM selects investments by applying an extra-financial approach based on the AXA IM's Environmental, Social and Governance exclusions policy in the investment process by applying specific sectorial exclusions.

Those sectorial exclusions cover areas such as climate risks, ecosystem protection & deforestation, Soft Commodities, Controversial Weapons.

The exclusion policies according to the AXA IM Global ESG Policies encompass exclusions such as Tobacco, white phosphorus weapons, United Nations Global Compact Principles violations, human rights.

AXA IM Global ESG Policies are applicable on direct investments and have specific limitations of application on alternative investments.

In addition, the AIFM shall use commercially reasonable efforts to take into account ESG considerations that are relevant to each investment of the Financial Product by performing at the time of investment the ESG Scoring Process (as described above) based on a proprietary methodology, each investment being scored on a scale ranging from 0 to 10.

Specifically for the ILS, the AIFM will take into consideration the application by the ILS sponsor of the sectorial exclusions and, in particular, for the ESG Scoring Process for the ILS, the environmental impact of the ILS Sponsor as a corporate through its carbon footprint, the quality of social relations within the firm through the promotion of employee diversity and the existence of a robust governance in relation to ethical matters.

- ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this Financial Product?***

The binding elements of the investment strategy consist in (i) the implementation of the exclusion policies according to the AXA IM Global ESG Policies and (ii) the use of sustainability metrics:

(i) Exclusion policies according to the AXA IM Global ESG Policies

The AIFM bindingly applies a first exclusion filter, encompassing areas such as Controversial Weapons, climate risks, Soft Commodities and ecosystem protection & deforestation. The Financial Product also applies specific sectorial exclusions such as Tobacco and white phosphorus weapons.

Exclusions policies according to the AXA IM Global ESG Policies are applicable on direct investments and have specific limitations of application on alternative investments.

(ii) Metrics

As of the date of the Supplement to the Issuing Document, the AIFM shall use commercially reasonable efforts to ensure that, until the first date where the Financial Product enters into its liquidation phase:

- at least, 75% of the investments comprised within the Financial Product's portfolio have been granted an ESG score by the AIFM;
- 100% of the ILS comprised within the Financial Product's portfolio, which have been granted an ESG score by the AIFM, have an ESG score equal or greater than 1.43 according to the ESG Scoring Process;
- at least, 50% of the ILS comprised within the Financial Product's portfolio which have been granted an ESG score by the AIFM have an ESG score granted by the AIFM equal to or greater than 5 according to the ESG Scoring Process; and
- at least, 70% of the ILS Sponsors of the invested ILS respect the ESG Eligibility Criterion. These metrics are assessed based on the Financial Product's NAV.

At least, on an annual basis, the AIFM shall review the ESG score of each investment and the aggregate ESG score of the Financial Product's portfolio on the basis of reasonably available data at the time of the assessment, using as appropriate relevant proxies and estimates when necessary.

The above metrics will be achieved until the date on which the Financial Product enters into its liquidation phase. While the AIFM shall aim at achieving these metrics as described above, it may be affected notably by new subscription, repayment and prepayment of Investments, or delays in distributions. The AIFM may also decide on a temporary basis to retain cash for reinvestment purposes. Therefore, the above metrics may temporarily deviate from the objectives described above, including before the liquidation phase. Should the Financial Product deviate from the above metrics, the AIFM shall use reasonable efforts to bring the Financial Product back within these ratios except where the AIFM reasonably believes that this would be against the interest of the Financial Product.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

This Financial Product does not commit to a minimum rate to reduce the scope of the investments.

● ***What is the policy to assess good governance practices of the investee companies?***

The AIFM assesses the good practices of the investee companies through the application of the exclusions policies described above to direct investments.

However, as the exclusions policies described above are applied only to direct investments, the AIFM, in determining the ESG Scoring Process for the ILS, shall aim also at assessing the quality and relevance of the ESG approach of the ILS Sponsor as an operating company, notably through the assessment of its good governance practices (in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance). In doing so, the AIFM will, as of the date of the Supplement, consider factors such as, the environmental impact of the ILS Sponsor as a corporate through its carbon footprint, the quality of social relations within the firm through the promotion of employee diversity and the existence of a robust governance in relation to ethical matters.



***What is the asset allocation planned for this Financial Product?***

The planned minimum proportion of the investments of the Financial Product aligned with Environmental or social characteristics in category #1 is expected to be 70% of the Financial Product's Net Asset Value.

The remaining "Other" investments in category #2 is expected not to represent more than 30% of the Financial Product's Net Asset Value.

The above planned asset allocation will be achieved until the date on which the Financial Product enters into its liquidation phase. While the AIFM shall aim at achieving the planned asset allocation described above, it may be affected notably by any new subscription, repayment and prepayment of Investments, or delays in distributions. The AIFM may also decide on a temporary basis to retain cash for reinvestment purposes. Therefore, the asset allocation may temporarily deviate from the planned asset allocation described above, including before the liquidation phase. Should the Financial Product deviate from the planned asset, the AIFM shall use reasonable efforts to bring the Financial Product back within these ratios except where the AIFM reasonably believes that this would be against the interest of the Financial Product.

**Asset allocation** describes the share of investments in specific assets.

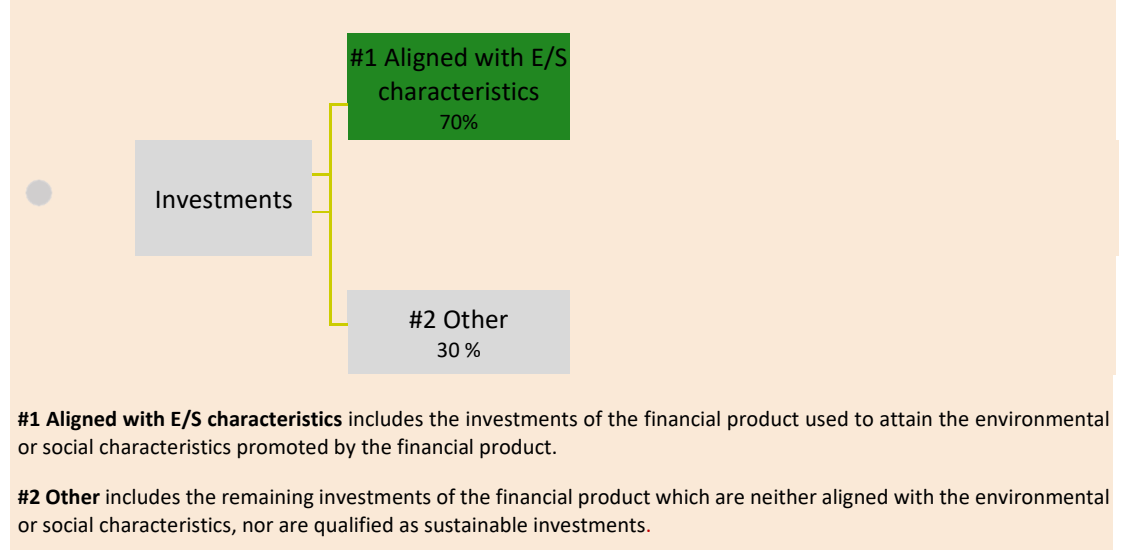
The planned asset allocation indicated above may be revised from time to time at the discretion of the AIFM.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



### ***How does the use of derivatives attain the environmental or social characteristics promoted by the Financial Product?***

The Financial Product does not use derivatives to attain the environmental or social characteristics it promotes; therefore this question is not applicable.



### ***To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?***

The Financial Product does not take into consideration the criteria of the EU Taxonomy environmental objectives. The Financial Product is not considering the “do not significantly harm” criteria of the EU Taxonomy.

### ***Does the Financial Product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>1</sup>?***

Yes,

☐

*In fossil gas*

☐

*In nuclear energy*

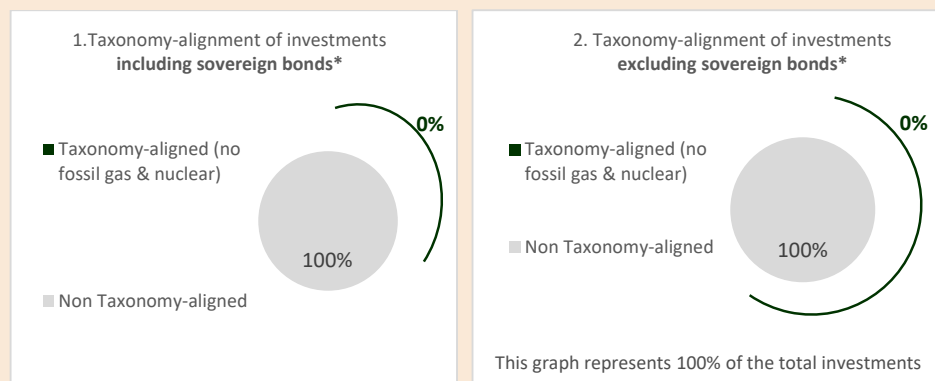
☐

No

☒

<sup>1</sup> Fossil Gas and/or nuclear related activities will comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU taxonomy objective – see explanatory note in the left had margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in commission Delegated Regulation (EU) 2022/1214.

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

● **What is the minimum share of investments in transitional and enabling activities?**

Not applicable.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

Gaia promotes environmental and social characteristics but does not commit to make any sustainable investments. As a consequence, Gaia does not commit to a minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy.



**What is the minimum share of socially sustainable investments?**

Not applicable.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

The “Other” assets may consist in:

- cash and cash equivalent investments being bank deposits, eligible money market instruments and money market used for managing the liquidity of the Financial Product (being specified that any money market instrument with an ESG score of minimum 1.43 and any money market fund qualified as article 8 under SFDR shall be included under #1 Aligned E/S characteristics);

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

- derivatives (except derivatives used for hedging purpose);
- other instruments eligible to the Financial Product and that are not covered by the ESG Scoring Process mentioned above or the ESG score of which is < 1.43

Environmental or social safeguards (i.e., exclusion policies according to the AXA IM Global ESG Policies) are applied and assessed on all “Other” assets except on (i) non single name derivatives and (ii) cash and cash equivalent investments described above.

#### Reference

**benchmarks** are indexes to measure whether the Financial Product attains the environmental or social characteristics that they promote.



#### ***Is a specific index designated as a reference benchmark to determine whether this Financial Product is aligned with the environmental and/or social characteristics that it promotes?***

There is no specific index designated as a reference benchmark to determine whether this Financial Product is aligned with the environmental and/or social characteristics.



#### ***Where can I find more product specific information online?***

More product-specific information can be found on the website: [Funds - AXA IM Luxembourg \(axa-im.lu\)](https://www.axa-im.lu)



## **SUPPLEMENT TO THE ISSUING DOCUMENT OF AXA IM NOVALTO**

a mutual investment fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

## **Cronos**

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## 1 NAME OF THE SUB-FUND

The name of the Sub-fund is Cronos (**Cronos**).

## 2 DEFINITIONS AND INTERPRETATION

### 2.1 Definitions

Capitalized terms used in this Supplement have the meaning ascribed to them in the Issuing Document, unless otherwise defined herein:

|                                    |  |
|------------------------------------|--|
| <b>A-B Conversion</b>              | has the meaning ascribed to it in section 14. of this Supplement;  |
| <b>A-B Conversion Amount</b>       | with respect to a Redeeming Investor and a Redemption Day, an amount equal to (i) the value of the Illiquid ILS comprised within Cronos' portfolio (other than the Illiquid ILS which have already been allocated to the B Pool(s)) as of such Redemption Day multiplied by (ii) the Redeemable Factor applicable to such Redeeming Investor;  |
| <b>A-C Conversion</b>              | has the meaning ascribed to it in section 10. of this Supplement;  |
| <b>A Units</b>                     | redeemable Units I-A, Units II-A, Units III-A, Units IV-A, Units V-A and Units VI-A in Cronos and any other classes or sub-classes of redeemable Units issued from time to time by Cronos, at the sole discretion of the Management Company;   |
| <b>Available Redeemable Amount</b> | with respect to a Redemption Day and a Redeeming Investor, the amount equal to (i) the value of the Tradable ILS and cash available into the Sub-fund as of such Redemption Day multiplied by (ii) the Redeemable Factor applicable to such Redeeming Investor;  |
| <b>B Pool(s)</b>                   | means each segregated and allocated sub-pool of Illiquid ILS (e.g. and by way of illustration, each B Pool I-1-1, B Pool I-2-1, B Pool III-1-2, etc...) created in accordance with section 11 of this Supplement, with the ownership interest therein being represented by the corresponding Sub-Classes of B Units issued and outstanding as of the relevant date; for the avoidance of doubt, a B Pool will be created on each |

|                           |  |
|---------------------------|--|
|                           | occasion on which a Redeeming Investor request the redemption of some of its A Units and the Illiquid Condition exists on the relevant Redemption Day (it being understood however that the same B Pool will be used in relation to the subsequent issues of B Units towards one given Redeeming Investor having delivered several Redemption Notices relating to the same Series of A Units – i.e. a new B Pool will not be created on each such occasion); |
| <b>B Units</b>            | non redeemable Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B in Cronos and any other Sub-Classes of B Units issued from time to time by Cronos to Redeeming Investors, at the sole discretion of the Management Company;  |
| <b>Base Currency</b>      | USD;   |
| <b>Benchmark Fund</b>     | has the meaning ascribed to it in section 16. of this Supplement;  |
| <b>C-A Conversion</b>     | has the meaning ascribed to it in section 14. of this Supplement;  |
| <b>C Pool</b>             | means a fully segregated sub-pool of illiquid assets created in accordance with section 11, with the ownership interest therein being represented by the C Units issued and outstanding as of the relevant date;   |
| <b>C Units</b>            | non redeemable Units I-C, Units II-C, Units III-C, Units IV-C, Units V-C and Units VI-C in Cronos and any other C Unit Classes or C Unit Sub-Classes of non redeemable Units issued from time to time by Cronos, at the sole discretion of the Management Company;   |
| <b>Cronos</b>             | Cronos, the second Sub-fund of the Fund managed by the Management Company in accordance with the Management Regulations;   |
| <b>Formation Date</b>     | 25 May 2011  |
| <b>Illiquid Condition</b> | means, as of a date of determination, that the Sub-fund's portfolio is comprised of at least one Illiquid ILS (excluding, for the avoidance of doubt, any Illiquid ILS   |

|                                  |   |
|----------------------------------|---|
|                                  | which may have been allocated to any B Pool) as of such date of determination;  |
| <b>Illiquid ILS</b>              | has the meaning ascribed to that term in section 3. of this Supplement;   |
| <b>ILS</b>                       | has the meaning ascribed to that term in section 3. of this Supplement;   |
| <b>Initial Investment Period</b> | the period starting on the Formation Date (inclusive) and ending on January, 2 <sup>nd</sup> 2012;  |
| <b>Initial Subscription Day</b>  | 25 May 2011 or any other day as determined by the Management Company (in its sole discretion);  |
| <b>Invested GAV</b>              | as of any Valuation Point, the gross asset value of Cronos less the value of all cash which has not been invested in ILS as of this date. For the avoidance of doubt, interests accrued and principal proceeds received in connection with redemption and/or disposal of ILS, in each case between the precedent Valuation Point and the relevant Valuation Point, shall not be deducted from the gross asset value of Cronos for the purpose of the calculation of the Invested GAV; |
| <b>Invested NAV</b>              | as of any Valuation Point, the net asset value of Cronos less the value of all cash which has not been invested in ILS as of this date. For the avoidance of doubt, interests accrued and principal proceeds received in connection with redemption and/or disposal of ILS, in each case between the precedent Valuation Point and the relevant Valuation Point, shall not be deducted from the net asset value of Cronos for the purpose of the calculation of the Invested NAV;     |
| <b>Issue Price</b>               | the issue price per Unit determined in accordance with section 11. of this Supplement;  |
| <b>Leverage</b>                  | Is any method by which the AIFM increases the exposure of the Sub-fund whether through borrowing of cash or transferable securities, or leverage embedded in derivative positions or by other means;  |

|                                      |   |
|--------------------------------------|---|
| <b>Performance Fee</b>               | has the meaning ascribed to it in section 16. of this Supplement;   |
| <b>Redeemable Factor</b>             | with respect to a Redeeming Investor and a given date of determination, an amount equal to the value of the A Units to be redeemed pursuant to the Redemption Notice divided by the value of all the A Units issued and outstanding as of such date of determination;   |
| <b>Redeeming Investor</b>            | an Investor having delivered to the Administrative Agent a Redemption Notice relating to A Units in accordance with section 13. of this Supplement;   |
| <b>Redemption Anti-Dilution Levy</b> | a provision for market spreads (the difference between the prices at which assets are valued and sold), duties and charges and other dealing costs relating to the disposal of assets that are necessary for the redemption of A Units; any such provision may be equal to up to ten (10) per cent. of the NAV per A Unit; if this provision is (i) a positive number, then it will be deducted from the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request, to the benefit of Cronos or (ii) a negative number, then its absolute value will be added to the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request, to the benefit of the Redeeming Investor; |
| <b>Redemption Charge</b>             | a charge not exceeding five (5) per cent. of the NAV per A Unit which may be deducted from the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request under specific circumstances described under section 13. of this Supplement, it being understood that the Management Company at its sole discretion may waive such charge or charges. Such charge shall be paid to the benefit of Cronos;  |
| <b>Redemption Day</b>                | each day on which A Units are redeemed, being no later than seven (7) Business Days after the relevant Valuation Point and such other days as determined by the Management Company (in its sole discretion);  |

|   |   |
|---|---|
| <b>Redemption Notice</b>                | the notice to redeem any A Units sent by a Redeeming Investor in accordance with section 13. of this Supplement; any such notice shall be delivered to the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point; the NAV taken as the basis of the settlement of the redemption order is the one determined on the Valuation Point immediately preceding the relevant Redemption Day (and as such is not known when the order is placed); the payment of the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request shall be made within three (3) Business Days after the Redemption Day; |
| <b>Redemption Price</b>                 | with respect to a Redemption Day, the amount equal to the product of (i) the NAV per Unit as at the relevant Redemption Day and (ii) the value of the Tradable ILS and cash available into the Sub-fund as of such Redemption Day divided by the value of the A Units issued and outstanding as of such Redemption Day;   |
| <b>Reference Period</b>                 | has the meaning ascribed to it in section 16. of this Supplement;   |
| <b>Relevant Mark-to-Model Valuation</b> | has the meaning ascribed to that term in section 16. of this Supplement;  |
| <b>SARON</b>                            | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator);  |
| <b>SOFR</b>                             | means the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York (or any successor administrator)  |
| <b>Subscription Anti-Dilution Levy</b>  | a provision for market spreads (the difference between the prices at which assets are valued and bought), duties and charges and other dealing costs relating to the acquisition of assets that are necessary for the issuance of A Units; any such provision may be equal to up to ten (10) per cent of the NAV per A Unit; if this provision is (i) a positive number, then it will be deducted from the Issue Price,   |

to the benefit of the subscribing Investor or (ii) a negative number, then its absolute value will be added to the Issue Price, to the benefit of Cronos;

**Subscription Charge**

a charge not exceeding five (5) per cent. of the NAV per A Unit which may be added to the Issue Price per A Unit under specific circumstances described under section 11. of this Supplement, it being understood that the Management Company may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limits. Such charge shall be paid to the benefit of Cronos;

**Subscription Day**

each day on which A Units of the relevant Class may be issued, being no later than seven (7) Business Days after the relevant Valuation Point and any such other days as determined by the Management Company (in its sole discretion);

**Tradable ILS**

has the meaning ascribed to it in section 3 of this Supplement;

**U.S.**

the United States of America;

**Valuation Point**

the last Business Day of each month.

## **2.2 Interpretation**

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise:

- (a) The singular includes the plural and conversely;
- (b) A gender includes all genders;
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them;
- (e) A reference to a section is a reference to a provision of this Supplement;



- (f) A reference to an agreement or document (including, without limitation, a reference to this Supplement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Supplement, the Issuing Document and/or the Management Regulations or that other agreement or document;
- (g) A reference to a party to this Supplement or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives);
- (h) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind;
- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it;
- (j) A reference to a statutory definition includes the definition as amended or replaced from time to time;
- (k) A reference to conduct includes, without limitation, an omission, statement and undertaking, whether or not in writing;
- (l) A reference to the Depositary, Administrative Agent, the AIFM or the Management Company includes a reference to their respective officers, employees and agents or any of them;
- (m) A reference to the Management Company or the AIFM being the registered owner, holder or transferee of any asset or as being the party to whom or by whom any payments (including but not being limited to payments of taxes) are to be made, is, where appropriate, a reference to any agent or delegate of the Management Company or the AIFM; and
- (n) A reference to a quarter is a reference to a calendar quarter commencing on 1 January, 1 April, 1 July or 1 October and ending on the next following 31 March, 30 June, 30 September or 31 December, respectively.

### **3 INVESTMENT OBJECTIVE AND POLICY**

The investment objective of Cronos is to seek to achieve, over the life of Cronos, an absolute return in the reference currency of each Class, in compliance with the investment policy described below.

There can be no assurance that the Sub-funds' investment objectives will be achieved. Investment results may substantially vary over time.

The AIFM will invest the assets of Cronos in insurance-linked securities (**ILS**). ILS in which the AIFM may invest consist in:

- a. tradable catastrophe bonds (the **Tradable ILS**); and
- b. illiquid ILS assets such as, without limitation, private transactions, catastrophe swaps and derivatives, side cars, loans, units and any other type of eligible instrument (the **Illiquid ILS**),

as determined by the AIFM in its sole and absolute discretion.

ILS are assets where the coupon and/or redemption is dependent on the occurrence of any of the Insured Events pertaining to any risk class as specified in section 7. of this Supplement.

The event risk refers to the occurrence of an Insured event. Examples of these types of risk are earthquakes in California and the Midwest of the US, in Japan, New Zealand and Europe; windstorms in Europe, the north-east and south-east coasts of the US, in Hawaii, Puerto Rico and Japan; extreme temperatures (heat/cold); aviation catastrophes; shipping catastrophes; explosion and fire catastrophes; mortality risks. This list is not exhaustive. However, these Insured Events must always be specified and documented.

The main strategy is to create a diversified portfolio of insurance risks, which are quantifiable and can be modeled by scientific and mathematical models and techniques. For the avoidance of doubt, the AIFM seeks to achieve a portfolio that is diversified by risk classes at the time of purchase of the relevant asset or entry into the relevant derivative instrument.

Cronos will be exposed to the ILS asset class through various eligible financial instruments (such as, without limitation, bonds, notes, derivatives financial instruments, shares, loans, units, etc...). The AIFM may also invest Cronos' assets in indirect investments in ILS in the form of units or shares of investment funds, others vehicles, or other undertakings for collective investment of a similar function.

The AIFM may acquire short-term liquid assets in the form of sight or time deposits denominated in a freely convertible currency with terms to maturity not exceeding twelve months and in the form of money market instruments issued by issuers worldwide that are denominated in a freely convertible currency, are liquid, can be readily valued and are traded on an exchange or other regulated market open to the public.

Derivatives form part of the investment policy and are not used solely to hedge investment positions.

Both basic forms of derivatives and exotic derivatives may be used, provided the underlying risk is covered under the investment policy. The derivative transactions may be concluded

on either a stock exchange or another regulated market open to the public, or in OTC trading if the counterparty is a regulated financial intermediary. In addition to market risks, derivatives are also subject to counterparty risk, i.e. the risk that the party to the contract may not be able to meet its obligations and may thus cause a financial loss.

Regarding the use of derivative financial instruments to gain exposure to the ILS asset class, the AIFM may establish trust account in a custodian bank in which collateral assets will be deposited by Cronos in order to secure, in whole or in part, its payments obligations towards the swap counterparties.

All types of credit derivatives may be acquired by Cronos (e.g. catastrophe swaps, total return swaps (TRSs), credit linked notes (CLNs)) in order to gain exposure to the ILS asset class and thus to act as a risk buyer on this asset class. The risk buyers receive a premium as compensation. The size of this premium depends, among other things, on the probability of a loss event occurring and the maximum size of the loss; both factors are generally difficult to assess, which increases the risk associated with credit derivatives.

The investments underlying Cronos do not take into account the EU criteria for environmentally sustainable economic activities.

#### **4 FURTHER INVESTMENT RESTRICTIONS**

The AIFM may from time to time impose such restrictions that it deems to be in the best interest of Cronos and its Investors.

#### **5 EFFICIENT PORTFOLIO MANAGEMENT TECHNIQUES**

##### **5.1 General**

The Sub-fund may use financial derivatives instruments (including without limitation listed and OTC derivatives such as total return swaps) in accordance with the conditions set out in this Section 5.

All revenues arising from efficient portfolio management techniques, net of direct or indirect operational costs and fees, will be returned to the Sub-fund.

The Sub-fund may incur costs and fees in connection with efficient portfolio management techniques. In particular, the Sub-fund may pay fees to agents and other intermediaries, which may be affiliated with the Depositary, the AIFM or the Management Company to the extent permitted under applicable laws and regulations, in consideration for the functions and risks they assume. The amount of these fees may be fixed or variable. Information on direct or indirect operational costs and fees incurred by the Sub-fund in this respect, as well as the identity of the entities to which such costs and fees are paid and any affiliation they

may have with the Depositary, the AIFM or the Management Company, if applicable, will be available in the annual report.

The Sub-fund may incur fixed or variable brokerage fees and transaction costs upon entering into such techniques and instruments. Such transactions costs will be described in the annual report of the Sub-fund.

Under no circumstances, shall these operations cause the Sub-fund to diverge from its investment objective and policy.

## **5.2 Securities Lending and borrowing /repurchase and reverse transactions**

The Sub-fund will not enter into securities financing transactions (SFT) such as securities lending, borrowing, repurchase and reverse transactions.

## **5.3 Total Return Swap**

The Sub-fund may enter into total return swaps (which may be either funded or unfunded) which are swap agreements in which one party (total return payer) transfers the total economic performance of a reference asset to the other party (total return receiver). Total economic performance includes interest and fees, gain or losses from market movements and credit losses. These instruments will be carried out as part of the achievement of the management objective of the Sub- Fund, hedging, cash management and/or efficient portfolio management.

The AIFM expects that such transactions will apply to a range from 0% to 5% of the Net Asset Value, however the Sub-fund may enter into such transactions up to 50% of its Net Asset Value.

The assets of the Sub-fund which might be subject to total return swaps are usually ILS. Details on the past utilization of these transactions are contained in the Sub –Fund’s annual report.

The Sub-fund shall enter into any total return swaps with counterparties subject to prudential supervision rules considered by CSSF as equivalent to those prescribed by EU law and selected by the AIFM in accordance with its order execution policy available on its internet website. In this context, the AIFM will enter into such transactions with such counterparties established in an OECD Member State having a long term debt rated at least BBB- according to the ratings scale of Standard & Poor’s (or deemed equivalent by the AIFM).

## **5.4 Collateral Management**

### Eligible Collateral

Collateral received by the Sub-fund may be used to reduce its counterparty risk exposure if it complies with the criteria listed in circulars issued by CSSF from time to time in terms of

liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;
- it should be valued on a daily basis on a mark-to-market price basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place. Margin calls will be implemented in accordance with the terms negotiated in the collateral arrangements;
- it should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;
- it should be sufficiently diversified in terms of country, markets and issuers and shall not entail on an aggregate basis an exposure to a given issuer for more than 20% of its Net Asset Value. By way of derogation, the Sub-fund may be fully collateralized in different Transferable Securities or Money Market Instruments issued or guaranteed by any of the Member States, one or more of their local authorities, a third party sovereign country such as Canada, Japan, Norway, Switzerland and the United States of America, or any public international body to which one or more Member State(s) belong(s) such as the European Investment Bank, provided that it receives such securities from at least six different issues and that securities from any single issue should not account for more than 30% of the Net Asset Value;
- the financial guarantees received by the Sub-fund will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider;
- it should be capable of being fully enforced by the AIFM for the account of the Sub-fund at any time without reference to or approval from the AIFM.

#### Haircut policy

In accordance with its internal policy relating to the management of the collateral, the AIFM shall determine:

- the required level of collateral; and
- the level of haircut applicable to the assets received as collateral, taking into account in particular the type of assets, the credit standing of the issuers, the maturity, the currency, the liquidity and the price volatility of the assets.

### Eligible assets

As long as it complies with the conditions mentioned in the paragraph “Eligible collateral” above, the collateral may consist of (i) sovereign OECD bonds; and/or (ii) direct investment in bonds issued or guaranteed by first class issuers offering adequate liquidity or shares listed or dealt on a regulated market of a member state of the European Union or on a stock exchange of a member state of the OECD provided that they are included in a main index.

### Reinvestment of collateral

The Sub-fund will be able to reinvest the financial guarantees received in accordance with the applicable regulation. The financial guarantees other than cash cannot be sold, reinvested or pledged. The counterparty will be able to reinvest the financial guarantees received from the Sub-fund in accordance with any regulation applicable to the counterparty.

## **6 CURRENCY HEDGING**

In order to manage the currency risk associated with Cronos’ assets and liabilities denominated in currencies other than the Base Currency, the AIFM may employ all available techniques and instruments intended to provide currency rate exchange protection with respect to the assets of Cronos and its Units. All costs, gains and losses of such hedging transactions are borne separately by the respective Classes.

## **7 RISK CLASSES**

- (o) California Earthquake  
An earthquake in the state of California in the U.S.;
- (p) New Madrid Earthquake  
An earthquake in the following states of the U.S.:  
  
Alabama, Arkansas, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin;
- (q) Other US Earthquake (excluding California Earthquake and New Madrid Earthquake)  
An earthquake in the states of the U.S. other than specified in (a) and (b);
- (r) U.S. Southeast Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:

Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas;

- (s) U.S. Northeast Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Illinois, Indiana, Michigan;

- (t) Other U.S. Hurricane  
Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the states of the U.S. other than those specified in (d) and (e);

- (u) Non-Hurricane Windstorm in the U.S.  
Any form of windstorm that is not included above in (d), (e) or (f) and may include severe thunderstorms, extra-tropical cyclones, hail storms, snow storms and other winter storms;

- (v) Japan Earthquake  
An earthquake in Japan;

- (w) Japan Wind  
A typhoon (referred as tropical cyclone) in the Country of Japan;

- (x) Other Earthquakes  
An earthquake in countries or states other than specified in (a), (b), (c) and (h). This category might include Risk such as Mexico earthquake, Canada earthquake, Israel earthquake, European earthquake etc.;

- (y) Europe Wind  
A wind storm (referred as extra tropical cyclones or winter storms) in the following countries:

Albania, Andorra, Austria, Belarus, Belgium, Bosnia, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Eire, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovakia, Slovenia, Sweden, Switzerland, Spain, Turkey, Ukraine, United Kingdom and Vatican City;

- (z) Extreme Mortality  
World-wide mortality events;
- (aa) Any other risk class that do not fall into any other risk class above. This category is not restricted to natural catastrophes or life related risks and might include all types of insurable risks;
- (bb) Any second or subsequent event where the collateral obligation is structured such that it can only default on a second or subsequent event from a peril or combination of perils from the above list in class (a) to class (m).

The AIFM will determine in good faith and in a commercially reasonable manner in which risk class(es) the insured perils associated with each asset of Cronos will fall into.

While certain ILS only cover a single event risk, many ILS can cover several event risks at once. Therefore, these ILS can fall into several risk classes.

## 8 LEVERAGE RESTRICTIONS

The AIFM may be required to borrow funds on a short term basis to answer margin calls on FX hedges transactions pending Cronos' receipt of various sources of receipts of cash.

Such borrowings will not exceed ten (10) per cent of the NAV of Cronos in aggregate.

### Further Restrictions

Without prejudice of the foregoing, the Leverage is controlled and shall not exceed (as a ratio of exposure of the Sub-fund and its NAV) one hundred and ten percent (110%) when using the commitment method and two hundred and ten percent (210%) when using the gross method.

The Sub-fund's exposure is calculated by the AIFM, as the case may be, in accordance with two cumulative methods: the "commitment method", as set-out by article 8 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012 and the "gross method" as set-out by article 7 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012. The gross method gives the overall exposure of the Sub-fund whereas the commitment method gives insight in the hedging and netting techniques used by the Management Company or the AIFM, as the case may be.

## 9 ELIGIBLE INVESTORS

Units in Cronos are exclusively available to Investors residing in any of the countries registered on the list of eligible countries as maintained by the Management Company. The Management Company may add or remove countries from the list of eligible countries in its sole discretion from time to time.



## 10 TERM

Cronos is established for an unlimited period of time. Its Pools, however, if and when created, will each time be established for a limited or an unlimited period duration as described in this section 10.

Unless Cronos is terminated earlier upon the occurrence of certain events specified in the Fund Documents, or if the Management Company decides, in consultation with the AIFM and having obtained prior approval of the Investors (unless the Management Company is exercising its redemption rights without the need of such approval as detailed under section 11. of this Supplement), to redeem all the Units in Cronos, the following terms will apply:

The **B Pools** will have a limited duration, whereby any B Units issued and outstanding shall be progressively redeemed and principal on these B Units shall be progressively returned to the Investors holding these B Units on each occasion on which proceeds are received in connection with the redemption of Illiquid ILS comprised within the relevant B Pool; such proceeds will be distributed to Investors holding such B Units by way of redemption of their B Units. For the avoidance of doubt, the Management Company will continue to manage the assets allocated to the B Pools but it will not reinvest the proceeds received in connection with the redemption of these Illiquid ILS.

The AIFM will manage the assets of the Sub-fund in accordance with Cronos' investment objective, policy and restrictions. The AIFM may reinvest all or part of available proceeds of the Sub-fund, except those in connection with the assets allocated to the B Pools which will be distributed as set out in this Supplement.

The Management Company may also decide, in consultation with the AIFM, to redeem part of the Units of Cronos and to return principal to Investors from the period beginning on the end of the Initial Investment Period. During this period, proceeds received in connection with the redemption or sale of assets comprised within Cronos' portfolio may be distributed to Investors by way of redemption of Units.

For the avoidance of doubt, any issued and outstanding Units will remain subject to Cronos' terms and conditions and in particular the redemption provisions described under section 13. of this Supplement.

## 11 SUBSCRIPTION AND ISSUE OF UNITS

The Management Company may issue different Classes in Cronos as appropriate. These Classes will carry different rights and obligations as described in this section 11.

Investors wishing to subscribe for A Units must in accordance with the procedure described under section 11. of the Issuing Document deliver a complete Subscription Form (to be received by the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the relevant Valuation Point) and pay the entire

Subscription Amount (for receipt by the Administrative Agent) by no later than the day falling one (1) Business Day after the relevant Valuation Point.

## 11.1 Classes and subscription process

### Classes

The Management Company has issued the following A Units Sub-Class at the launch of Cronos:

- Capitalisation Units denominated in USD (**Units I-A**)<sup>2</sup>.

The Management Company may also issue the following A Units Sub-Classes:

- Distribution Units denominated in USD (**Units II-A**);
- Capitalization Units denominated in EUR (**Units III-A**);
- Distribution Units denominated in EUR (**Units IV-A**);
- Capitalization Units denominated in CHF (**Units V-A**); and
- Distribution Units denominated in CHF (**Units VI-A**).

The Management Company reserves the right to issue further A Units Sub-Classes, as determined in its sole and absolute discretion.

The Management Company may issue each Unit Sub-Class in different Series, each Series corresponding to different fee schedule applicable to the relevant Investors. Series will be numbered from 1 to 100.

The Management Company may, under certain circumstances as described under section 14, convert A Units into non redeemable B Units and issue the corresponding non-redeemable B Units to each Redeeming Investor whose A Units have been so converted. Such B Units will be issued in different Sub-Series, each Sub-Series corresponding to a different Redeeming Investor.

Sub-Series will be numbered from 1 to 100. The Management Company will issue further Sub-Series of B Units to additional Redeeming Investors, depending on the number of such Redeeming Investors; a new B Pool will be created on each occasion on which a new Sub-Series of B Units will be issued (it being understood however that the same B Pool will be used in relation to the subsequent issues of B Units towards one given Redeeming Investor having delivered several Redemption Notices relating to the same Series of A Units – i.e. a new B Pool will not be created on such occasion). Each conversion of A Units into B Units shall each time also take into account the relevant Sub-Class and Series, as applicable.

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<sup>2</sup> These Units have initially been issued as « Units I ».

For example and by way of illustration:

- the first Redeeming Investor (in chronological order) requesting the redemption of some of its Units I-A-1 will receive, on a *pro rata* basis, Units I-B-1-1; such Units I-B-1-1 will track the performance of the Illiquid ILS allocated to the B Pool I-1-1 which will be created at the time of this issue of Units I-B-1-1; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units I-A-1, Illiquid ILS will be allocated to the same B Pool I-1-1 and additional Units I-B-1-1 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days;
- the second Redeeming Investor (in chronological order) requesting the redemption of some of its Units I-A-1 will receive, on a *pro rata* basis, Units I-B-1-2; such Units I-B-1-2 will track the performance of the Illiquid ILS allocated to the B Pool I-1-2 which will be created at the time of this issue of Units I-B-1-2; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units I-A-1, Illiquid ILS will be allocated to the same B Pool I-1-2 and additional Units I-B-1-2 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days;
- the third Redeeming Investor in chronological order (but, for the avoidance of doubt, the first Redeeming Investor, in chronological order, requesting the redemption of some Units II-A-1) requesting the redemption of some of its Units II-A-1 will receive, on a *pro rata* basis, Units II-B-1-1; such Units II-B-1-1 will track the performance of the Illiquid ILS allocated to the B Pool II-1-1 which will be created at the time of this issue of Units II-B-1-1; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units II-A-1, Illiquid ILS will be allocated to the same B Pool II-1-1 and additional Units II-B-1-1 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days.

The Management Company may, under certain circumstances as described under section 14, convert A Units into C Units and issue the corresponding C Units to each Investor whose A Units have been so converted.

Each conversion of A Units into C Units shall each time also take into account the relevant Sub-Class and Series, as applicable.

#### Minimum Subscription Amount

In respect of each Investor, the minimum initial Subscription Amount in relation to the subscription of A Units shall be USD 1,000,000 (one million United States Dollars) or its equivalent in the relevant currency for non-USD denominated A Units. The Management Company, in its sole discretion, may decide to waive or modify the requirements relating to the minimum initial Subscription Amount in the A Units.

### Subscription process

The Management Company will not issue A Units on the Subscription Day unless the application for subscription of such A Units has been received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the Valuation Point immediately preceding the Subscription Day. Otherwise such application shall be deemed to have been received late and will, unless the Management Company determines otherwise in its discretion, be applied in relation to the next following Subscription Day. Nonetheless, the Management Company will have the right, in its own discretion, to accept applications not complying with the principles set forth in this paragraph.

Subscription requests made in accordance with the foregoing procedure shall be irrevocable.

Payments of the Subscription Amount as specified in section 0 of this Supplement shall be made for receipt by the Administrative Agent by not later than the day falling one (1) Business Day after the relevant Valuation Point in the Base Currency or any other currency specified by the Investor (in which case the cost of any currency conversion shall be borne by the Investor). Failing receipt of this payment, the application will be considered as cancelled or will be carried over to the immediately following Subscription Day, at which time A Units will be issued to the Investor at the price determined on the next following Subscription Day.

## **11.2 Pool terms and conditions**

All the assets and liabilities of Cronos, save for any assets allocated to each of the B Pools and to the C Pool pursuant to section 14. of this Supplement, will constitute a single sub-pool of assets within Cronos.

**B Pool(s):** B Units of Cronos shall be progressively redeemed and principal on these B Units shall be progressively returned to the Investors holding these B Units on each occasion on which proceeds are received in connection with the redemption of Illiquid ILS comprised within the relevant B Pool; such proceeds will be distributed to Investors holding such B Units by way of redemption of their B Units.

For the avoidance of doubt, (i) the AIFM will continue to manage the assets allocated to the B Pools but it will not reinvest the proceeds received in connection with the redemption of these Illiquid ILS and (ii) the AIFM will manage the assets of Cronos in accordance with Investment Policy of Cronos for an unlimited duration and may reinvest all or part of available proceeds of the Sub-fund, except those in connection with the assets allocated to the B Pools which will be distributed as set out in this Supplement.

## **11.3 Issue Price per Unit**

- (a) The Issue Price per A Unit to be issued will correspond to the NAV per Unit as applicable as at the relevant Subscription Day, in respect of which the application for

subscription in the Fund is received by the Administrative Agent, plus (i) a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit, to the benefit of Cronos, if this provision is a negative number (and the Subscription Anti-Dilution Levy so added will be equal to the absolute value of such provision) and (ii) a Subscription Charge of up to five (5) per cent of the NAV per A Unit, subject to the satisfaction of the conditions set forth below, or less a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit if this provision is a positive number (and the Subscription Anti-Dilution Levy so deducted will be equal to such provision) and provided however, that the Management Company may waive to add the Subscription Anti-Dilution Levy to the Issue Price or to deduct the Subscription Anti-Dilution Levy from the Issue Price (as applicable) if it determines (acting in good faith and in a commercially reasonable manner) that the amount of such Subscription Anti-Dilution Levy is not relevant. The NAV taken as the basis of the settlement of the subscription order is therefore not known when the order is placed (*forward pricing*).

Units I-A are “capitalization” Units – profits and proceeds will be reinvested for the benefit of the holders of the relevant A Units.

Units II-A are “distribution” Units – profits and proceeds may be distributed or not, in whole or in part, at the absolute discretion of the Management Company, to the holders of the A Units from time to time. Investors should note that, due to the distribution of profits and proceeds on the “distribution” Units, the NAV per A Unit of the “capitalization” Units should, in principle, be higher and the “capitalization” Units should offer more growth.

In relation to each issue of A Units:

- the Management Company agrees that it will not charge to the subscribing Investor any Subscription Charge unless a Subscription Anti-Dilution Levy equal to ten (10) per cent of the NAV per A Unit is charged to such subscribing Investor by the Management Company in relation to such subscription of A Units; and
  - if (i) a Subscription Anti-Dilution Levy equal to ten (10) per cent of the NAV per A Unit is charged by the Management Company to the subscribing Investor and (ii) a Subscription Charge also needs to be charged to the subscribing Investor in order to preserve the value of the underlying assets of Cronos, then the Management Company, acting in a commercially reasonable manner, agrees that it will only charge to the subscribing Investor a Subscription Charge equal to the amount which is strictly necessary to preserve the value of the underlying assets of Cronos (within the permitted limits set forth in this Supplement).
- (b) Non-redeemable B Units will be issued to a Redeeming Investor *pro rata* to its redemption request in total on each occasion when the Illiquid Condition exists on the relevant Redemption Day. The amount of B Units which will be issued to a Redeeming Investor on each such occasion will be equal to the applicable A-B Conversion Amount.

A portion of each Illiquid ILS comprised within the Sub-fund's portfolio (excluding, for the avoidance of doubt, the Illiquid ILS which have already been allocated to the B Pool(s)) as of the relevant Redemption Day will be allocated to the relevant B Pool(s) on a *pro rata* basis (i.e. each such Illiquid ILS will be allocated to the relevant B Pool for an amount equal to the value of such Illiquid ILS on the relevant Redemption Day multiplied by the Redeemable Factor applicable to the Redeeming Investor on such Redemption Day). Each Illiquid ILS will be accounted for separately within the relevant B Pool(s) and each B Unit issued in respect of each such B Pool(s) will track the performance of the relevant Illiquid ILS comprised within such B Pool(s) until the maturity date of such Illiquid ILS occurs.

B Units will be issued pursuant to an A-B Conversion (as described under section 13. of this Supplement), at a fixed Issue Price per Unit as follows:

- Units I-B: USD 1,000 (one thousand United States Dollars);
- Units II-B: USD 1,000 (one thousand United States Dollars);
- Units III-B: EUR 1,000 (one thousand Euros);
- Units IV-B: EUR 1,000 (one thousand Euros);
- Units V-B: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-B: CHF 1,000 (one thousand Swiss Francs).

For the avoidance of doubt, other Sub-Classes of B Units corresponding to other Sub-Classes of A Units may be issued by the Management Company.

Each B Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Cronos, to be allocated thereto as at the Net Asset Value of the relevant B Unit determined at the date of the relevant valuation or liquidity event.

- (c) Subject to the prior information and authorization by the *Commission de Surveillance du Secteur Financier*, and either pursuant to the fast track or regular procedure for the creation of side-pockets, non redeemable C Units will be issued to existing Investors only, *pro rata* to their then current interest in the relevant A Units, on each occasion when a Tradable ILS of Cronos becomes illiquid or is deemed by the Management Company or the AIFM to be an illiquid asset.

Each such illiquid asset will then be entirely comprised within the C Pool and will be allocated to each Investor on a *pro rata* basis (i.e. based on (a) the value of A Units issued, outstanding and held by such Investor over (b) the total value of A Units issued and outstanding as of the relevant date). Each illiquid asset will be accounted for separately within the C Pool and each C Unit issued in respect of each such illiquid asset will track the performance of the relevant asset until a valuation or liquidity event occurs.

C Units will be issued pursuant to an A-C Conversion (as described under section 14. of this Supplement), at a fixed Issue Price per Unit as follows:

- Units I-C: USD 1,000 (one thousand United States Dollars);
- Units II-C: USD 1,000 (one thousand United States Dollars);
- Units III-C: EUR 1,000 (one thousand Euros);
- Units IV-C: EUR 1,000 (one thousand Euros);
- Units V-C: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-C: CHF 1,000 (one thousand Swiss Francs).

For the avoidance of doubt, other Sub-Classes of C Units corresponding to other Sub-Classes of A Units may be issued by the Management Company.

Each C Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Cronos, to be allocated thereto as at the Net Asset Value of the relevant C Unit determined at the date of the relevant valuation or liquidity event.

## 12 TRANSFER OF UNITS

Transfers of Units in Cronos shall be subject to the rules set forth in section 12. of the Issuing Document. For the avoidance of doubt, the Management Company can only withhold its prior approval to a Transfer if the proposed Transfer violates or threatens to violate (i) any applicable law or (ii) the Management Company's internal policy.

## 13 REDEMPTION OF UNITS

- (i) Up to and until the end of the Initial Investment Period, Investors may not redeem Units.
- (j) After the end of the Initial Investment Period and subject to the limitations set forth in paragraphs (p) and (q) below, Cronos shall redeem all or part of the A Units of a Redeeming Investor in cash and "in kind" (as explained here-below in section c)) (if the Illiquid Condition exists on the relevant Redemption Day) upon request of such Redeeming Investor as specified in a qualifying Redemption Notice delivered to the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point, otherwise such application shall be deemed to have been received for purposes of a redemption at a price to be determined on the next following Redemption Day.
- (k) The redemption of A Units will be satisfied:
  - in cash for an amount up to the applicable Available Redeemable Amount on the relevant Redemption Day; and

- “in kind” which means: by the issuance of B Units if the Illiquid Condition exists on the relevant Redemption Day, for an amount equal to the A-B Conversion Amount.
- (l) B Units in the relevant Sub-Class will be issued to each Redeeming Investor on the relevant Redemption Day if the Illiquid Condition exists on such Redemption Day pursuant to an A-B Conversion described under section 14. of this Supplement. The amount of B Units which will be issued to a Redeeming Investor on each such occasion will be equal to the A-B Conversion Amount determined on such Redemption Day.
  - (m) C Units may not be redeemed upon request of Investors but will be compulsorily redeemed, and the proceeds applied for purposes of a C-A Conversion, as described under section 14. of this Supplement, on each occasion when a relevant asset is realized or deemed realized, or becomes liquid at the sole discretion of the Management Company or the AIFM and A Units of the corresponding Class, Sub-Class and Series will be issued to each relevant Investor at the last available NAV per A Unit of the relevant Class, Sub-Class and Series. For the avoidance of doubt, in the event that one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the C Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of C Units will be distributed to the holders of such Sub-Classes of C Units.
  - (n) As of a Redemption Day, the value of A Units that will be redeemed in cash will not exceed the applicable Available Redeemable Amount on such day. The following amounts may be deducted (as determined by the Management Company, acting in good faith and in a commercially reasonable manner) from the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request: (i) a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit, to the benefit of Cronos, if this provision is a positive number (and the Redemption Anti-Dilution Levy so deducted will be equal to such provision), and (ii) a Redemption Charge of up to five (5) per cent of the NAV per A Unit, subject to the satisfaction of the conditions set forth in paragraph m) below. A Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit if this provision is a negative number may be added (as determined by the Management Company acting in good faith and in a commercially reasonable manner) to the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request (and the Redemption Anti-Dilution Levy so added will be equal to the absolute value of such provision). The NAV taken as the basis of the settlement of the redemption order is not known when the order is placed (*forward pricing*).
  - (o) The payment of the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request shall be made within three (3) Business Days after the Redemption Day. Payment will be made by wire transfer.



- (p) The Management Company may in exceptional circumstances (i.e. in the event that the Management Company reasonably determines, in consultation with the AIFM, that due to the illiquidity of the ILS asset class, disposal or valuation of a portion of the assets of Cronos, is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of A Units is not in the best interests of Cronos.
- (q) The Management Company may also, with the consent of the AIFM, temporarily suspend the determination of the Net Asset Value per Unit of Cronos and/or the issue and redemption of its A Units under specific circumstances (i.e. when the market on which the relevant ILS are traded suddenly become illiquid or following the occurrence of an Insured Event).
- (r) The Management Company generally expects to distribute cash to the Investors in satisfaction of redemption requests (except for the B Units which will be issued to Redeeming Investors pursuant to an A-B Conversion), provided, however, that under certain circumstances and on an exceptional basis (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units, subject to the Investors' prior written approval (including by email) on such redemption in-kind. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Cronos prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.
- (s) Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company shall furthermore cause the redemption of the Units of any Investor, if in the Management Company's reasonable opinion, (i) such Investor holds Units directly or beneficially in breach of any law or requirement of any country, governmental or regulatory authority or is otherwise unable to provide the Administrative Agent with any documentation or information that it may reasonably request from time to time or (ii) the existence of such person as an Investor causes or threatens to cause the Fund or the Sub-fund to incur any liability to taxation or to suffer any pecuniary disadvantage in any jurisdiction which it would otherwise not have expected to incur or suffer or (iii) such Investor is not a Well-Informed Investor anymore.
- (t) The Management Company may also cause the redemption of all the Units of Cronos, if net assets of Cronos have decreased to an amount equal to ten million United States Dollars (USD 10,000,000.00).
- (u) In relation to each redemption of A Units:
  - the Management Company agrees that it will not charge to the Redeeming Investor any Redemption Charge unless a Redemption Anti-Dilution Levy equal to ten (10) per cent of the NAV per A Unit is charged to such Redeeming

Investor by the Management Company in relation to such redemption of A Units; and

- if (i) a Redemption Anti-Dilution Levy equal to ten (10) per cent of the NAV per A Unit is charged by the Management Company to the Redeeming Investor and (ii) a Redemption Charge also needs to be charged to the Redeeming Investor in order to preserve the value of the underlying assets of Cronos, then the Management Company, acting in a commercially reasonable manner, agrees that it will only charge to the Redeeming Investor a Redemption Charge equal to the amount which is strictly necessary to preserve the value of the underlying assets of Cronos (within the permitted limits set forth in this Supplement).

## 14 CONVERSION OF UNITS

Units of Cronos shall not be converted into Units of another Sub-fund of the Fund. Units of any other Sub-fund of the Fund shall not be converted into Units of Cronos.

Generally, Units in Cronos cannot be converted. Conversions will be allowed in accordance with the following rules:

1. A Units of a Redeeming Investor in an amount equal to the applicable A-B Conversion Amount will be compulsorily redeemed by the Management Company if the Illiquid Condition exists on a given Redemption Day, in which case the redemption proceeds of such redemption shall be applied to purchase the relevant Series of Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B (or other Sub-Classes of B Units corresponding to other Sub-Classes of A Units which could be created, as the case may be) at the fixed Issue Price set forth in section 11.3 b. (each such conversion shall be referred to as an **A-B Conversion**).
2. In case one or more Tradable ILS within Cronos' portfolio becomes illiquid or are deemed by the Management Company or the AIFM to be illiquid assets (in each case acting in a commercially reasonable manner), up to twenty (20) per cent of the aggregate amount of A Units issued an outstanding may be compulsorily redeemed by the Management Company, in which case the redemption proceeds of such redemption shall be applied to purchase the corresponding Sub-Class of C Units (i.e. the relevant Sub-Class of Units I-C, Units II-C, Units III-C, Units IV-C, Units V-C and Units VI-C (or other Sub-Classes of C Units corresponding to other Sub-Classes of A Units which could be created as the case may be)) at the fixed Issue Price set forth in section 11.3 c. (each such conversion shall also be referred to as an **A-C Conversion**).
3. On each occasion on which an asset allocable to the C Units is realized or deemed realized, or becomes liquid (as determined by the Management Company or the AIFM, in each case acting in a commercially reasonable manner) the process described in sub-section 2. above will be reversed, i.e., the relevant C Units will be compulsorily redeemed by the Management Company and the redemption proceeds will be applied

to purchase the corresponding Sub-Class of A Units at the then last available NAV per Unit, on behalf of the Investor (each such conversion a **C-A Conversion**). For the avoidance of doubt, in the event that (i) one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the C Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of C Units will be distributed to the holders of such Sub-Classes of C Units.

4. Upon receipt by the Administrative Agent of (i) a duly completed conversion request form or any other written notification acceptable to the Administrative Agent and (ii) a duly completed transfer form together with any other documentation that may be requested by the Administrative Agent from time to time, a conversion of Units within another Unit Sub-Class in favor of an Investor may be accepted by the Management Company (each such conversion a **Unit Sub-Class Conversion**).

The application for such a Unit Class Conversion within a specific Class must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling five (5) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.

## **15 BASE CURRENCY**

The NAV per Unit of each Sub-Class of the Sub-fund shall be expressed in the Base Currency of the relevant Sub-Class.

## **16 VALUATION AND NET ASSET VALUE CALCULATION**

The valuation and calculation of the Net Asset per Unit will be effected as provided for in the Fund Documents.

In connection with certain securities or derivatives (including, without limitation, Illiquid ILS) for which no external pricing information is available, the AIFM may, for purposes of valuing such securities or derivatives, rely on internal assumptions or financial/ pricing models (the **Relevant Mark-to-Model Valuation**).

## **17 FEES AND EXPENSES**

### **17.1 Management Fee**

The Management Company will be entitled to receive a Management Fee which will be paid monthly in arrears and based on the Invested GAV as of the Valuation Point of each month. In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive

from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Sub-Fund.

The maximum Management Fee will be equal to two (2) per cent. (exclusive of VAT, if due) per annum of the Invested GAV of the Sub-fund as at the relevant month end.

## 17.2 Performance Fee

The Management Company is entitled to a performance fee (a **Performance Fee**), which will be calculated in respect of each reference period (each a **Reference Period**).

The first Reference Period starts on the Initial Subscription Day (inclusive) and ended on 31 December, 2011. Each subsequent Reference Periods correspond to Cronos' accounting year and shall commence on 1 January and end on (i) 31 December of each year (if the Sub-fund has not been liquidated as of this date) or (ii) the date on which the Sub-fund is liquidated.

The Management Company may decide, in its sole and absolute discretion, to waive the application of the Performance Fees in relation to certain Sub-Classes and Series.

**Performance Calculation Day:** on any Valuation Point, if the Out-Performance (as defined below) is positive, a performance fee provision amounting to eighteen (18) per cent. of the Out-Performance is retained. If the Out-Performance is positive but lower than that of the previous Valuation Point, this provision is adjusted through write-backs up to the total of existing provisions.

The **Out-Performance** is defined as the difference between Cronos' Invested NAV (net of all fees and costs but accrued Performance Fees), and the net asset value of a benchmark fund, which performance is equal to the performance of the benchmark index (the **Benchmark Fund**).

The following has to be replicated in the **Benchmark Fund**:

- the same variation of subscriptions as the Units;
- in case of redemptions or distribution payments, the Benchmark Fund value is reduced according to the following ratio: amount redeemed or distributed divided by the Invested NAV of Cronos;
- in case of amounts newly invested in ILS by Cronos, the Benchmark Fund value is increased according to the following ratio: amounts newly invested into ILS divided by the Invested NAV of Cronos;
- in case of redemption or disposal of ILS, the Benchmark Fund value is reduced according to the following ratio: principal amounts received in connection with redemption or disposal of investments divided by the Invested NAV of Cronos.

At the end of the Reference Period, provided that a performance fee provision is retained, Performance Fees are paid to the Management Company. The Benchmark Fund's value is then adjusted to that of Cronos' Invested NAV for the following Reference Period. If no provision remains at the end of the Reference Period, no Performance Fee is paid to the Management Company, and the Benchmark Fund's value is kept unchanged for the following Reference Period.

In case of redemption of Units or distribution payments, a proportion of the Performance Fee provision will be paid to the Management Company at the time of such redemption or distribution payment (as applicable), corresponding to (i) the ratio of the amount of Units redeemed divided by the total number of Units of the relevant Class in case of a redemption and/or (ii) the ratio of the amount distributed divided by the Invested NAV of Cronos, in case of distribution payments.

A Performance Fee, once paid, will not be returned to Cronos, irrespective of subsequent losses.

From January 1<sup>st</sup>, 2023, **included**, the **Benchmark Index** is equal to:

- the SOFR Compound Rate + 500 basis points net for Classes of Units denominated in USD.
- the 1-month Euro Interbank Offered Rate (Euribor) rate + 500 basis points net for Classes of Units denominated in EUR;
- the SARON 1-month Compound Rate + 500 basis points net for Classes of Units denominated in CHF;

With respect to Sub-Classes of Units which are not denominated in USD, EUR or CHF, the Benchmark Index will be determined by the Management Company on a case by case basis.

### **17.3 Value added taxes**

All fees and expenses payable by Cronos as set out above are exclusive of value added taxes or other charges. Cronos shall pay all value added taxes or other charges as required.

## **18 PUBLICATION OF THE NET ASSET VALUE**

The NAV per Unit as well as the Issue Price are available at the registered office of the Management Company on the day falling no later than seven (7) Business Days after each Valuation Point.

## **19 FINANCIAL YEAR, AUDIT AND REPORTING**

### **19.1 Financial Year**

Other than the first and the last Financial Year, Cronos' Financial Year begins on 1 January of each year and ends on 31 December of the same year. The first Financial Year of Cronos begins on the establishment of the Fund and ends on 31 December 2011. The last Financial Year of Cronos begins on 1 January of the relevant year and ends on the date of the final liquidation distribution of Cronos.

### **19.2 Reporting**

In addition to the annual report, the AIFM shall periodically prepare a status report on Cronos' investments and activities during the applicable period

The AIFM may establish such further reports as deemed necessary or useful.

## **20 DISTRIBUTIONS**

Regarding the distribution Units, the Management Company envisages making distributions during the life of Cronos, as determined in its sole discretion.

Distributions, if any, shall always be made in cash or in marketable securities.

## **21 CONSOLIDATION OF SUB-FUNDS**

Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company may not resolve to amalgamate Cronos with another Sub-fund of the Fund.

## **22 INVESTMENT RISKS RELATED TO THE SUB-FUND**

### **22.1 General**

An investment in Cronos involves certain risk factors and considerations relating to Cronos' structure and investment objective which prospective Investors should evaluate before making a decision to invest in Cronos. No assurance can be given that Cronos will succeed in meeting its investment objective or that there will be any return on capital. Moreover, past performance is not a guarantee of future results.

An investment in Cronos is speculative, entail substantial risks and can, in the worst case scenario, result in the loss of the total capital contribution of the investor. Investors must be able to withstand the loss of their entire investment. If losses occur on a number of assets

in the portfolio, that could result in a substantial reduction in the principal paid on the Units and Investors receiving less principal than the purchase price paid for the Units.

In particular, no redemption of Units at the Investors' request is permitted during the Initial Investment Period and the number of A Units which will be redeemed in cash on a given Redemption Day will be limited to the Available Redemption Amount on such Redemption Day.

A substantial portion of the Sub-fund's portfolio may be comprised of Illiquid ILS; as a consequence, the amount of A Units which will be redeemed in cash on any Redemption Day can be very limited or nil and a substantial portion or all of the A Units may be compulsorily converted into non redeemable B Units on any Redemption Day.

In addition, the Management Company is empowered to charge (i) a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and a Redemption Charge of up to five (5) per cent. of the NAV per A Unit (subject to the conditions set forth in section 13. of this Supplement) in relation to each redemption of A Units, to the benefit of Cronos and (ii) a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and a Subscription Charge of up to five (5) per cent. of the NAV per A Unit (subject to the conditions set forth in section 11. of this Supplement) in relation to each issue of A Units, to the benefit of Cronos. Up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable C Units in the event that one or more assets become illiquid.

Before making any investment decision with respect to the Units, any prospective Investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below. The following is a brief description of certain factors, which should be considered along with other matters discussed elsewhere in the Issuing Document. The following does however, not purport to be a comprehensive summary of all the risks associated with an investment in Cronos generally. Rather, the following are only certain particular risks to which Cronos is subject and that Cronos wishes to encourage prospective Investors to discuss in detail with their professional advisors.

An investment in Cronos requires a medium to long term commitment and there can be no assurance that Cronos will achieve its investment objective or that the Investors will receive any return or the return of their invested capital.

While the prospective Investor should make its own evaluation of the risks of investing in Cronos, it must consider, among other things, the following matters before making a decision to invest in Cronos.

Units require a medium to long-term commitment and are only redeemable subject to the terms disclosed. Prospective Investors should therefore be aware that they may be required to bear the financial risks associated with any investment in Cronos as long as they maintain their investment.

Financing strategies by Cronos may exacerbate the effect on the value of falls and rises in the value of Cronos' assets and falls in value may consequently affect Cronos' liquidity.

Any borrowing extended to Cronos may be terminated in circumstances including without limitation the following:

- (c) the amount of sums drawn exceeding specified proportions of the realization value of the assets;
- (d) an event occurs which will adversely affect the business, assets or financial condition of Cronos or its ability to comply with its obligations towards any lender. The availability of Cronos' financing facilities and its liability to repay sums is, therefore, subject to circumstances beyond Cronos' control, including movements in the value of its assets.

A termination of any financing facility as described above may have an adverse effect on an investment in any Units and may require assets to be sold prematurely or at a discount to market value.

Charges and expenses in connection with Cronos are not made uniformly throughout the life of Cronos and it is possible that an Investor may not receive back the full amount of its investment.

Cronos may be required to give security for its obligations in respect of any financing arrangement. Any enforcement of such security interest is likely to have an adverse effect on all the Units.

## **22.2 Recent Economic Events**

The global economy is currently experiencing a crisis in the credit markets as well as a general downturn and, in certain countries, a recession. Among the sectors that are experiencing particular difficulty due to current economic conditions are the CDO, leveraged finance and investment fund markets.

There exist significant risks for Cronos and Investors as a result of such economic conditions. These risks include, among others, (i) the likelihood that Cronos will find it more difficult to sell any of its assets in the secondary market, thus rendering it more difficult to dispose of certain assets and (ii) the possibility that, on or after the date hereof, the price at which assets can be sold by Cronos will have deteriorated from their effective purchase price. These additional risks may materially adversely affect the returns on the Units to Investors.

The credit crisis has an increasing impact on the economies of a number of jurisdictions who are members of the Organization of Economic Co-operation and Development (OECD).



The bankruptcy or insolvency of a major financial institution may have an adverse effect on Cronos, particularly if such financial institution is a hedge counterparty to a swap involving Cronos, or a counterparty to a buy or sell trade that has not settled with respect to an asset with Cronos. As is the case with the Lehman Brothers bankruptcy proceedings, the bankruptcy or insolvency of another financial institution may result in the disruption of payments to Cronos. In addition, as was the case with Lehman Brothers and Bear Stearns, the bankruptcy or insolvency of one or more additional financial institutions may trigger additional crises in the global credit markets which could have a significant adverse effect on Cronos, its assets and the Units.

It is possible that one of the effects of the global credit crisis will be an introduction of a significantly more restrictive regulatory environment including the implementation of new accounting and capital adequacy rules in addition to further regulation of derivative instruments. Such additional rules and regulations could, among other things, adversely affect Investor as well as the flexibility of the AIFM in managing the assets of Cronos.

### **22.3 Risk on Cross–Pool Liabilities for all Unit Classes**

Although there is a contractual and accounting allocation of assets and liabilities to the relevant Pools, there is no legal segregation with respect to Pools of the Sub-fund. Therefore, if the liabilities of a Pool exceed its assets, creditors of said Pool of Cronos may seek to have recourse to the assets allocated to the other Pools of Cronos.

As there is a contractual and accounting allocation of assets and liabilities without any legal segregation amongst Pools, a transaction relating to a Pool could affect the other Pools of Cronos.

### **22.4 Suitability**

Prospective purchasers of the Units should ensure that they understand the nature of such Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Units and that they consider the suitability of such Units as an investment in the light of their own circumstances and financial condition. An investment in Cronos should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

None of the Management Company or the AIFM or any of their respective affiliates makes any representation as to the proper characterization of the Units for investment or other purposes, as to the ability of particular investors to purchase Units for investment or other purposes under applicable investment restrictions or policies which may be applicable to them or as to the accounting, capital, tax and other regulatory or legal consequences of ownership of the Units. All institutions the activities of which are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities should

consult their own legal advisors in determining whether and to what extent the Units are subject to any investment, capital or other restrictions.

## **22.5 Redemption Risk**

Investors may redeem Units in accordance with the terms of the Supplement. In particular, no redemption of Units at the Investors' request is permitted during the Initial Investment Period and during the life of Cronos, the number of A Units which will be redeemed in cash on a given Redemption Day will be limited to the Available Redemption Amount on such Redemption Day. Large redemptions of Units might result in Cronos being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In addition, a significant redemption of Units may require Cronos to realize investments at values which are lower than the anticipated market values of such investments. This may cause a temporary imbalance in Cronos' portfolio, which may adversely affect the remaining Investors.

A substantial portion of the Sub-fund's portfolio may be comprised of Illiquid ILS; as a consequence, the amount of A Units which will be redeemed in cash on any Redemption Day can be very limited or nil and a substantial portion or all of the A Units may be compulsorily converted into non redeemable B Units on any Redemption Day.

In addition, the Management Company is empowered to charge a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and a Redemption Charge of up to five (5) per cent. of the NAV per A Unit (subject to the conditions set forth in section 13. of this Supplement) in relation to each redemption of Units, to the benefit of Cronos. Up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable C Units in the event that one or more assets become illiquid.

The AIFM may also, with the consent of the Management Company, temporarily suspend the determination of the Net Asset Value per Unit of Cronos and/or the Management Company may temporarily suspend the issue and redemption of its A Units under specific circumstances.

The Management Company may also in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation with the AIFM, that disposal or valuation of a portion of the assets of Cronos is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of A Units is not in the best interest of Cronos.

Cash or securities may be distributed to redeeming Investors, as determined by the Management Company.

## **22.6 In-kind Distributions**

The Management Company generally expects to distribute cash to the Investors in satisfaction of their redemption requests (except for the B Units which will be issued to Redeeming Investors pursuant to an A-B Conversion), provided, however, that under certain exceptional circumstances (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units (in which case any costs associated with such redemption in kind will be borne by the redeeming investor). In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Cronos prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.

Such securities and instruments may not be readily marketable or sellable and may be required to be held by the Investor for an indefinite period of time. Investor receiving an in-kind distribution will be responsible for disposing of such distributed assets.

## **22.7 Illiquid ILS**

Illiquid ILS are purchased by the Sub-fund pursuant to purchase agreements (or other similar arrangements) which often contain indemnity provisions to the benefit of the administrator, the arranger and the issuer of such Illiquid ILS; as a result of these indemnity provisions, the amount which can be lost with respect to a given Illiquid ILS is not limited to the amount invested on such investment.

## **22.8 Investment Risk**

It should be remembered that the price of the Units can go down as well as up and that, on the redemption of their Units, Investors may not receive the amount that they originally invested.

The return on the Cronos' assets will primarily be dependent upon the availability and market price at which they can be purchased at the time investments are made and the time it takes for the Cronos' assets to reach maturity.

## **22.9 Illiquidity of the Investments**

The market prices of the assets of Cronos can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such assets may be greater than those prevailing in other securities market.

A portion of Cronos' portfolio will consist of securities and other financial instruments which are not actively and widely traded. In addition, many ILS and insurance-linked derivatives limit sales to investors in certain permitted jurisdictions. Consequently, it may be difficult for Cronos to dispose of such investments rapidly and at favorable prices in connection with redemption requests, adverse market developments or other factors. Illiquid securities may

also be more difficult to value and may require pricing at Mark-to-Model Valuation as determined in good faith by the AIFM.

## **22.10 Unpredictability of Insured Events and Losses; Reliance on Catastrophe Risk Modeling**

Part of Cronos' investments is subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of Insured Events can be expected to result in volatility with respect to the Cronos' assets. A major loss or series of losses as a result of Insured Events may occur from time to time and, if affecting one or more of Cronos' investments, could result in material loss.

The results of analyses performed with models (provided by third party risk modeling firms or not), cannot be viewed as facts, projections, or forecasts of future losses and cannot be relied upon as an indication of the future return on the Cronos' investments. Actual loss experience can materially differ from that generated by such models.

Loss distributions produced by such models constitute estimated losses based on assumptions relating to, among other things, environmental, demographic and cost factors, many of which represent subjective judgments, are inherently uncertain and are beyond the control of the respective models agent (whether provided by third parties or not). The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge, alternative theories governing empirical relationships, and the random nature of Insured Events themselves. In addition, there can be no assurance that any or all of the risk modeling firms (if any) will continue to perform such analyses and, if so, the amount of resources dedicated to such efforts. No model of Insured Events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different risk modeling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to uncertainty. Professional risk modeling firms review their modeling assumptions from time to time in the light of new meteorological, engineering, and other data and information and refine their loss estimates as such information becomes available. Such refinements may materially alter, and have in the past materially altered, the loss estimates currently generated by these models.

The loss probabilities generated by such models are not predictive of future events, or of the magnitude of losses that may occur. Actual frequency of Insured Events and their attendant losses could materially differ from those estimated by such models. Potential investors in Cronos should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Modeling insured losses resulting from Insured Events is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of

sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM or by risk modeling firms.

#### **22.11 Concentration of investments**

Cronos may at certain times hold relatively few investments. Cronos could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer or counterparty. Additionally, historical correlations may undergo dramatic change, thereby reducing expected diversification protection.

#### **22.12 Currency Risk**

Assets of Cronos may be denominated in a currency other than the Base Currency and changes in the exchange rate between the Base Currency and the currency of the asset may lead to a depreciation of the value of the Cronos' assets as expressed in the Base Currency. It may not be possible or practical to hedge against such exchange rate risk. The AIFM may, but is not obliged to, mitigate this risk by using financial instruments. Cronos may from time to time enter into currency exchange transactions either on a spot basis or by buying currency exchange forward contracts. Neither spot transactions nor currency exchange forward contracts eliminate fluctuations in the prices of a Cronos' securities or in foreign exchange rates, or prevent loss if the prices of these securities should decline. Performance of Cronos may be strongly influenced by movements in foreign exchange rates because currency positions held by Cronos may not correspond with the securities positions held. Cronos may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates or interest rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions. Although these transactions are intended to minimize the risk of loss due to a decline in the value of hedged currency, they also limit any potential gain that might be realized should the value of the hedged currency increase. The precise matching of the relevant contract amounts and the value of the securities involved will not generally be possible because the future value of such securities will change as a consequence of market movements in the value of such securities between the date when the relevant contract is entered into and the date when it matures. The successful execution of a hedging strategy which matches exactly the profile of the investments of Cronos cannot be assured. It may not be possible to hedge against generally anticipated exchange or interest rate fluctuations at a price sufficient to protect the assets from the anticipated decline in value of the portfolio positions as a result of such fluctuations.

#### **22.13 Swaps and Other Derivatives**

Cronos may enter into swap and similar derivative transactions involving or relating to Insured Events. A swap transaction is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts)

with payments generally calculated by reference to a principal ("notional") amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, Cronos is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which Cronos trades. The swap market is generally not regulated.

Speculative position limits are not applicable to swap transactions, although the counterparties with which Cronos deals may limit the size or duration of positions available to Cronos as a consequence of credit considerations.

Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.

#### **22.14 Counterparty and Credit Risk**

Most of the markets in which Cronos may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such "over-the-counter" transactions. This exposes Cronos to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing Cronos to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties.

The ability of Cronos to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by Cronos. In addition, the counterparties with which Cronos effects transactions may, from time to time, cease making markets or quoting prices in certain of the instruments.

Most of the ILS derivatives (i.e. catastrophe swaps and other types of derivatives enabling Cronos to gain exposure to the ILS asset class), synthetic securities, hedge agreements, currency hedge agreements, interest rate hedge transactions and securities lending agreements may involve Cronos entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to Cronos under certain circumstances. Cronos will be exposed to the credit risk of the counterparty with respect to any such payments.

#### **22.15 Ramp-up Period**

Because of the seasonnability of the ILS issuances and the relatively small size of the ILS primary and secondary markets, there can be no assurance that the AIFM will manage to

source enough assets meeting its investment criteria enabling it to build a well-diversified portfolio during the ramp-up period of Cronos.

#### **22.16 Extension or Acceleration of Maturity**

ILS and derivatives often provide for an extension of maturity following the occurrence of an Insured Event to enable the insurer to process and audit loss claims where an Insured Event has, or possibly has, occurred. Alternatively, the maturity could in certain circumstances be accelerated upon the occurrence of certain legal, regulatory, credit or structural events. An extension or acceleration of maturity may increase volatility.

#### **22.17 Performance Fee**

The Performance Fee payable to the Management Company by Cronos may create an incentive for the Management Company to cause Cronos to make investments that are riskier or more speculative than would be the case if there was no such arrangement. In addition, because the Performance Fee is calculated on a basis that includes unrealized appreciation of Cronos' assets, it may be greater than if such compensation were based solely on realized gains.

#### **22.18 Diverse Investors**

The Investors may have conflicting investment, tax and other interests with respect to their investments in the Cronos. The conflicting interests of individual Investors may relate to or arise from, among other things, the nature of Investments made by Cronos, the structuring or the acquisition of investments, the timing of disposition of investments and the timing an proportion of Units redeemed by each such Investor.

In particular, it is intended that at least one Investor will represent a substantial part of the Units in issue of Cronos. The other Investors will most likely be influenced by the behavior of such Investor and the redemption of its Units in Cronos, if requested, may have a material adverse effect on the other Investors.

#### **22.19 U.S. Federal Income Tax Risks**

Issuers of ILS (**Issuers**) are typically special purpose companies (in some cases special purpose reinsurance companies) formed in Bermuda or the Cayman Islands. Issuers are formed and intend to operate in such a manner that would not cause them to be treated as engaged in the conduct of a trade or business within the United States. Such assessments are in certain instances supported by legal opinions that provide that, while there is no relevant authority and the analysis is highly factual, the Issuer would not be deemed to be so engaged under current U.S. federal income tax law. On this basis, the Issuer does not expect to be required to pay U.S. income tax with respect to its income. There can be no assurance, however, that the Internal Revenue Service (**IRS**) will not contend, and that a court would not ultimately hold, that the Issuer is engaged in the conduct of a trade or business within the United States. If the Issuer were deemed to be so engaged, it would, among other things, be subject to U. S. federal income tax, as well as the branch profits tax,

on its income which is treated as effectively connected with the conduct of that trade or business.

## **22.20 Regulatory Risks**

The sale of ILS are typically limited to investors in certain regulatory jurisdictions, including Bermuda and many U.S. jurisdictions, where legal opinions or regulatory rulings have been obtained generally to the effect that purchasers of such securities resident of, and purchasing in, such jurisdictions are not required, by virtue of their purchase of such securities, to be licensed as insurers or reinsurers under the insurance laws of such jurisdictions. Issuer's counsel typically provides an opinion to the Issuer that purchasers will not be considered or treated as carrying on or transacting insurance business solely by virtue of investing in or holding the securities.

Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority to modify or withdraw interpretations or to impose additional requirements. There can be no assurance that any opinions of counsel provided to an Issuer or regulatory rulings will continue to be effective or favorable to Cronos or that a modification in such legal opinions or regulatory rulings would not adversely affect Cronos. Furthermore, with respect to ILS that are structured as derivative transactions, in particular those that are OTC derivative financial instruments, such instruments are typically marketed and promoted in a different manner than ILS, whereby the legal opinions and regulatory rulings that are typically obtained by, as well as the representations and warranties customarily made by, the issuers and promoters of such securities may not be available with respect to insurance linked derivatives.

## **22.21 Certain Legal Risks associated with the Investments**

The investments of Cronos may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers of payments, lender liability and the power of a court, receiver or liquidator to disallow, reduce, subordinate or disenfranchise particular claims.

## **22.22 Absence of Operating History of Issuers of ILS**

The Issuers of ILS are typically newly formed special-purpose vehicles organized for the sole purpose of issuing the ILS. As such, such Issuers often have no operating history.

## **22.23 Financing Arrangements; Leverage**

As a general matter, the banks and dealers that provide financing to Cronos can apply essentially discretionary margin, haircut, financing and security and collateral valuation policies. Changes by banks and dealers in margin, haircut, financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. In addition, the dealers have essentially discretionary authority to close out credit lines. There can be no assurance that Cronos will be able to maintain



adequate financing, particularly in adverse market conditions. If it is not able to do so, forced portfolio liquidations and significant losses could result.

#### **22.24 Interest-Rate Risk**

The returns associated with the floating-rate securities in which Cronos may invest will be affected by changes in interest rates. Accordingly, if interest rates decline, the return of long positions in such securities will decline. Furthermore, if interest rates rise, the return of short positions in such securities will decline. In the event Cronos invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. The AIFM may hedge against such fluctuations in value but is not obligated to do so.

#### **22.25 Lack of Volume of Insurance-Linked Securities**

The volume (both in terms of number and dollar) of deals involving ILS may not be sufficient for Cronos to invest the optimal amount of its assets in such instruments.

#### **22.26 Valuation Risk**

Cronos may invest some of its assets in illiquid and/or unquoted securities and derivative instruments. Such investments and derivative instruments will be valued by the AIFM or its delegates in accordance with the provisions set out in the Fund Documents.

Such investments are inherently difficult to value and are the subject of substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales or "close-out" prices of such investments and the procedures put in place may be unable to detect every error contained in the valuation information.

To the extent the information received by Cronos is inaccurate or unreliable, the valuation of Cronos' securities and derivatives may be inaccurate. Cronos expects that it will primarily hold securities that will not have readily assessable market values. In such instances, the AIFM will determine the fair value of such securities in good faith based on various factors.

In connection with certain securities or derivatives for which no external pricing information is available, the AIFM may rely on internal pricing models. Such Mark-to-Model Valuations may vary from similar valuations performed by independent third parties for similar types of securities or derivatives. The valuation of illiquid securities and derivatives is inherently subjective and subject to increased risk that the information utilized to value the security or derivative or to create the price models may be inaccurate or subject to other error. Inaccurate valuations may, among other things, prevent Cronos from effectively managing its investment portfolios and risks, may result in Cronos exceeding certain investment guidelines (if any) and may affect the diversification and risk management of Cronos' portfolios. The value of Cronos' portfolio may also be affected by changes in accounting standards, policies or practices.

Due to a wide variety of market factors and the nature of investments to be held or entered into by Cronos, there is no guarantee that the value determined by the Administrative Agent will represent the value that will be realized by Cronos on the eventual disposition of the

investment or that would, in fact, be realized upon an immediate disposition of the investment.

ILS in the form of securities are private securities which are not actively traded and valuation of these securities has been difficult over the past years.

#### **22.27 Risk related to Collateral Management**

Counterparty risk arising from investments in OTC financial derivative instruments is, subject to the applicable regulation, generally mitigated by the transfer or pledge of collateral in favor of Cronos. However, transactions may not be fully collateralized.

If a counterparty defaults, Cronos could realize a loss due, inter alia, to inaccurate pricing or monitoring of the collateral, adverse market movements, deterioration in the credit rating of issuers of the collateral or illiquidity of the market on which the collateral is traded.

Cronos may also incur a loss in reinvesting collateral received, where permitted. Such a loss may arise due to a decline in the value of the investments made.

Where permitted by the investment policy and subject to the applicable regulation, the Cronos' reuse of collateral received by it from its OTC derivative activity, within the limits set by applicable regulation, is likely to increase the Cronos' leverage and also increase the risks associated with the instruments into which cash collateral is invested, such as market risk, counterparty risk and liquidity risk.

#### **22.28 Risks Related to ILS Collateral**

The collateral backing the ILS that Cronos will acquire may include certain assets, the quality of which has not been thoroughly assessed by the AIFM. In the event of a deterioration of such collateral, Cronos will not be able to recover the principal amount invested in such ILS.

#### **22.29 Limited Number of Participants on the ILS Market**

There is currently a very limited number of active participants (i.e. banks, broker-dealers, investors) on the ILS market, therefore limiting, inter alia, the liquidity of the ILS in which Cronos may invest, the ability of Cronos to obtain various market quotations in relation to its investments, etc..

In addition, the bankruptcy of one of these participants will have material adverse consequences against Cronos and other market participants, the effect of which will be magnified as compared to less concentrated assets classes.

#### **22.30 Reliance on the AIFM and Dependence on Key Personnel**

Subject to the limitations set forth in this Supplement, the AIFM has complete discretion in directing the investment of Cronos' assets and the selection and negotiation of the derivatives agreements. Cronos' success depends, to a great extent, on the AIFM's ability to select investments and negotiate derivatives. Cronos will be highly dependent on the

financial and managerial experience of the AIFM and a limited number of persons of the AIFM to whom the task of managing the investment has been assigned. If the services of all or a substantial number of such persons were to become unavailable, the result of such a loss of key management personnel could result in substantial losses for Cronos.

#### **22.31 Substantial Charges**

Cronos is subject to substantial charges, and must generate profits and income which exceed their fixed costs in order to avoid depletion of its assets. Cronos is required to pay the service provider fees, expenses and commissions regardless of its performance.

#### **22.32 Custodial Risk**

The Management Company has entered into arrangements pursuant to which Cronos' assets are held by the Depositary. The bankruptcy of such Depositary might have a material adverse effect on Cronos.

#### **22.33 Sustainability Risk**

The Sustainability Risk is described in the section 32.7 of the general part of the Issuing Document of the Fund. Investors are therefore invited to refer to the aforementioned section of the Issuing Document.

Given Cronos' investment strategy and risk profile, the likely impact of Sustainability Risks on Cronos' returns is expected to be low.

**The investment risks set out in this Supplement do not purport to be exhaustive and potential Investors should be aware that an investment in Cronos may be exposed to risks of an exceptional nature from time to time.**

## **SUPPLEMENT TO THE ISSUING DOCUMENT OF AXA IM NOVALTO**

a mutual investment fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

**Rhea**

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**1 NAME OF THE SUB-FUND**

The name of the Sub-fund is Rhea (**Rhea** or the **Sub-fund**).

**2 DEFINITIONS AND INTERPRETATION**

**2.1 Definitions**

Capitalized terms used in this Supplement have the meaning ascribed to them in the Issuing Document, unless otherwise defined herein:

**A-B Conversion** has the meaning ascribed to it in section 14. of this Supplement;

**A-B Conversion Amount** with respect to a Redeeming Investor and a Redemption Day, an amount equal to (i) the value of the Illiquid ILS comprised within Rhea's portfolio (other than the Illiquid ILS which have already been allocated to the B Pool(s)) as of such Redemption Day multiplied by (ii) the Redeemable Factor applicable to such Redeeming Investor;

**A-C Conversion** has the meaning ascribed to it in section 14. of this Supplement;

**A Units** redeemable Units I-A, Units II-A, Units III-A, Units IV-A, Units V-A and Units VI-A in Rhea and any other classes or sub-classes of redeemable Units issued from time to time by Rhea, at the sole discretion of the Management Company;

**Available Redeemable Amount** with respect to a Redemption Day and a Redeeming Investor, the amount equal to (i) the value of the Tradable ILS and cash available into the Sub-fund as of such Redemption Day multiplied by (ii) the Redeemable Factor applicable to such Redeeming Investor;

**B Pool(s)** means each segregated and allocated sub-pool of Illiquid ILS (e.g. and by way of illustration, each B Pool I-1-1, B Pool I-2-1, B Pool III-1-2, etc...) created in accordance with section 11 of this Supplement, with the ownership interest therein being represented by the corresponding Sub-Classes of B Units issued and outstanding as of the relevant date; for the avoidance of doubt, a B Pool will be created on each occasion on which a Redeeming Investor request the

|                             |   |
|-----------------------------|---|
|                             | redemption of some of its A Units and the Illiquid Condition exists on the relevant Redemption Day (it being understood however that the same B Pool will be used in relation to the subsequent issues of B Units towards one given Redeeming Investor having delivered several Redemption Notices relating to the same Series of A Units – i.e. a new B Pool will not be created on each such occasion); |
| <b>B Units</b>              | non-redeemable Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B in Rhea and any other Sub-Classes of B Units issued from time to time by Rhea to Redeeming Investors, at the sole discretion of the Management Company;   |
| <b>Base Currency</b>        | USD;  |
| <b>Benchmark Fund</b>       | has the meaning ascribed to it in section 16. of this Supplement;   |
| <b>C-A Conversion</b>       | has the meaning ascribed to it in section 14. of this Supplement;   |
| <b>C Pool</b>               | means a fully segregated sub-pool of illiquid assets created in accordance with section 10, with the ownership interest therein being represented by the C Units issued and outstanding as of the relevant date;  |
| <b>C Units</b>              | non-redeemable Units I-C, Units II-C, Units III-C, Units IV-C, Units V-C and Units VI-C in Rhea and any other C Unit Classes or C Unit Sub-Classes of non-redeemable Units issued from time to time by Rhea, at the sole discretion of the Management Company;  |
| <b>Deferred Redemptions</b> | has the meaning ascribed to it in section 13 f). of this Supplement;  |
| <b>Formation Date</b>       | the launch date of Rhea, which was 2 May 2014;  |
| <b>Illiquid Condition</b>   | means, as of a date of determination, that the Sub-fund's portfolio is comprised of at least one Illiquid ILS (excluding, for the avoidance of doubt, any Illiquid ILS which may have been allocated to any B Pool) as of such date of determination;   |

|                                      |  |
|--------------------------------------|--|
| <b>Illiquid ILS</b>                  | has the meaning ascribed to that term in section 3. of this Supplement;  |
| <b>ILS</b>                           | has the meaning ascribed to that term in section 3. of this Supplement;  |
| <b>Initial Subscription Day</b>      | 2 May 2014;  |
| <b>Issue Price</b>                   | the issue price per Unit determined in accordance with section 11. of this Supplement;   |
| <b>Leverage</b>                      | is any method by which the AIFM, as the case may be, increases the exposure of the Sub-fund whether through borrowing of cash or transferable securities, or leverage embedded in derivative positions or by any other means;  |
| <b>Performance Fee</b>               | has the meaning ascribed to it in section 17.2 of this Supplement;   |
| <b>Redeemable Factor</b>             | with respect to a Redeeming Investor and a given date of determination, an amount equal to the value of the A Units to be redeemed pursuant to the Redemption Notice divided by the value of all the A Units issued and outstanding as of such date of determination;  |
| <b>Redeeming Investor</b>            | an Investor having delivered to the Administrative Agent a Redemption Notice relating to A Units in accordance with section 13. of this Supplement;  |
| <b>Redemption Anti-Dilution Levy</b> | a provision for market spreads (the difference between the prices at which assets are valued and sold), duties and charges and other dealing costs relating to the disposal of assets that are necessary for the redemption of A Units; any such provision may be equal to up to ten (10) per cent. of the NAV per A Unit; if this provision is (i) a positive number, then it may (as determined by the Management Company in its sole discretion) be deducted from the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request, to the benefit of Rhea or (ii) a negative number, then its absolute value may (as determined |



by the Management Company in its sole discretion) be added to the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request, to the benefit of the Redeeming Investor;

**Redemption Charge**

a charge not exceeding five (5) per cent. of the NAV per A Unit which may be deducted from the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request at the Management Company's sole discretion, it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limits. Such charge shall be paid to the benefit of Rhea;

**Redemption Day**

each day on which A Units are redeemed, being no later than seven (7) Business Days after the relevant Valuation Point and such other days as determined by the Management Company (in its sole discretion);

**Redemption Notice**

the notice to redeem any A Units sent by a Redeeming Investor in accordance with section 13. of this Supplement; any such notice shall be delivered to the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point; the NAV taken as the basis of the settlement of the redemption order is the one determined on the Valuation Point immediately preceding the relevant Redemption Day (and as such is not known when the order is placed); the payment of the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request shall be made within three (3) Business Days after the Redemption Day;

**Redemption Price**

with respect to a Redemption Day, the amount equal to the product of (i) the NAV per Unit as at the relevant Redemption Day and (ii) the value of the Tradable ILS and cash available into the Sub-fund as of such Redemption Day divided by the value of the A Units issued and outstanding as of such Redemption Day;

|   |   |
|---|---|
| <b>Reference Period</b>                 | has the meaning ascribed to it in section 17.2 of this Supplement;  |
| <b>Relevant Mark-to-Model Valuation</b> | has the meaning ascribed to that term in section 16. of this Supplement;  |
| <b>Rhea</b>                             | Rhea, the third Sub-fund of the Fund managed by the Management Company in accordance with the Management Regulations;   |
| <b>SARON</b>                            | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator);  |
| <b>Series Conversion</b>                | has the meaning ascribed to it in section 14 of this Supplement;  |
| <b>SOFR</b>                             | means the Secured Overnight Financing Rate administered by the Federal Reserve Bank of New York (or any successor administrator);   |
| <b>Subscription Anti-Dilution Levy</b>  | a provision for market spreads (the difference between the prices at which assets are valued and bought), duties and charges and other dealing costs relating to the acquisition of assets that are necessary for the issuance of A Units; any such provision may be equal to up to ten (10) per cent of the NAV per A Unit; if this provision is (i) a positive number, then it may (as determined by the Management Company in its sole discretion) be deducted from the Issue Price, to the benefit of the subscribing Investor or (ii) a negative number, then its absolute value may (as determined by the Management Company in its sole discretion) be added to the Issue Price, to the benefit of Rhea; |
| <b>Subscription Charge</b>              | a charge not exceeding five (5) per cent. of the NAV per A Unit which may be added to the Issue Price per A Unit at the Management Company's sole discretion, it being understood that the Management Company at its sole discretion may waive such charge or charges or differentiate between Investors as to the amount of such charge within the permitted limits. Such charge shall be paid to the benefit of Rhea;   |

|                         |   |
|-------------------------|---|
| <b>Subscription Day</b> | each day on which A Units of the relevant Class may be issued, being no later than seven (7) Business Days after the relevant Valuation Point and any such other days as determined by the Management Company (in its sole discretion); |
| <b>Threshold</b>        | has the meaning ascribed to that term in section 13 f) of this Supplement;  |
| <b>Tradable ILS</b>     | has the meaning ascribed to it in section 3 of this Supplement;   |
| <b>U.S.</b>             | the United States of America;   |
| <b>Valuation Point</b>  | the last Business Day of each month.  |

## 2.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (f) The singular includes the plural and conversely.
- (g) A gender includes all genders.
- (h) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (i) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (j) A reference to a section is a reference to a provision of this Supplement.
- (k) A reference to an agreement or document (including, without limitation, a reference to this Supplement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Supplement, the Issuing Document and/or the Management Regulations or that other agreement or document.
- (l) A reference to a party to this Supplement or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (m) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.

- (n) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (o) A reference to a statutory definition includes the definition as amended or replaced from time to time.
- (p) A reference to conduct includes, without limitation, an omission, statement and undertaking, whether or not in writing.
- (q) A reference to the Depositary, Administrative Agent, the AIFM or the Management Company includes a reference to their respective officers, employees and agents or any of them.
- (r) A reference to the Management Company or AIFM being the registered owner, holder or transferee of any asset or as being the party to whom or by whom any payments (including but not being limited to payments of taxes) are to be made, is, where appropriate, a reference to any agent or delegate of the Management Company or AIFM.
- (s) A reference to a quarter is a reference to a calendar quarter commencing on 1 January, 1 April, 1 July or 1 October and ending on the next following 31 March, 30 June, 30 September or 31 December, respectively.

### 3 INVESTMENT OBJECTIVE AND POLICY

The investment objective of Rhea is to seek to achieve, over the life of Rhea, an absolute return in the reference currency of each Class, in compliance with the investment policy described below.

There can be no assurance that the Sub-funds' investment objectives will be achieved. Investment results may substantially vary over time.

The AIFM will invest the assets of Rhea in insurance-linked securities (**ILS**). ILS in which the AIFM may invest consist in:

- tradable catastrophe bonds (the **Tradable ILS**); and
- illiquid ILS assets such as, without limitation, private transactions, catastrophe swaps and derivatives, side cars, loans, units and any other type of eligible instrument (the **Illiquid ILS**),

as determined by the AIFM in its sole and absolute discretion.

ILS are assets where the coupon and/or redemption is dependent on the occurrence of any of the Insured Events pertaining to any risk class as specified in section 7. of this Supplement.

The event risk refers to the occurrence of an Insured event. Examples of these types of risk are earthquakes in California and the Midwest of the US, in Japan, New Zealand and Europe; windstorms in Europe, the north-east and south-east coasts of the US, in Hawaii, Puerto Rico and Japan; extreme temperatures (heat/cold); aviation catastrophes; shipping catastrophes; explosion and fire catastrophes; mortality risks. This list is not exhaustive. However, these Insured Events must always be specified and documented.

The main strategy is to create a diversified portfolio of insurance risks, which are quantifiable and can be modeled by scientific and mathematical models and techniques. For the avoidance of doubt, the AIFM seeks to achieve a portfolio that is diversified by risk classes at the time of purchase of the relevant asset or entry into the relevant derivative instrument.

Rhea will be exposed to the ILS asset class through various eligible financial instruments (such as, without limitation, bonds, notes, derivatives financial instruments, shares, loans, units, etc...). The AIFM may also invest Rhea's assets in indirect investments in ILS in the form of units or shares of investment funds, others vehicles, or other undertakings for collective investment of a similar function.

Rhea may subscribe, acquire and/or hold Units issued by other Sub-fund(s), subject to the conditions laid down in article 71 (8) of the SIF Law.

The AIFM may acquire short-term liquid assets in the form of sight or time deposits denominated in a freely convertible currency with terms to maturity not exceeding twelve months and in the form of money market instruments issued by issuers worldwide that are denominated in a freely convertible currency, are liquid, can be readily valued and are traded on an exchange or other regulated market open to the public.

Derivatives form part of the investment policy and are not used solely to hedge investment positions.

Both basic forms of derivatives and exotic derivatives may be used, provided the underlying risk is covered under the investment policy. The derivative transactions may be concluded on either a stock exchange or another regulated market open to the public, or in OTC trading if the counterparty is a regulated financial intermediary. In addition to market risks, derivatives are also subject to counterparty risk, i.e. the risk that the party to the contract may not be able to meet its obligations and may thus cause a financial loss.

Regarding the use of derivative financial instruments to gain exposure to the ILS asset class, the AIFM may establish trust account in a custodian bank in which collateral assets will be deposited by Rhea in order to secure, in whole or in part, its payments obligations towards the swap counterparties.

All types of credit derivatives may be acquired by Rhea (e.g. catastrophe swaps, total return swaps (TRSs), credit linked notes (CLNs)) in order to gain exposure to the ILS asset class and thus to act as a risk buyer on this asset class. The risk buyers receive a premium as compensation. The size of this premium depends, among other things, on the probability of a loss event occurring and the maximum size of the loss; both factors are generally difficult to assess, which increases the risk associated with credit derivatives.

The investments underlying Rhea do not take into account the EU criteria for environmentally sustainable economic activities.

#### **4 FURTHER INVESTMENT RESTRICTIONS**

There are no further investment restrictions applicable to Rhea.

#### **5 EFFICIENT PORTFOLIO MANAGEMENT TECHNIQUES**

##### **5.1 General**

The Sub-fund may use financial derivatives instruments (including without limitation listed and OTC derivatives such as total return swaps) in accordance with the conditions set out in this Section 5.

All revenues arising from efficient portfolio management techniques, net of direct or indirect operational costs and fees, will be returned to the Sub-fund.

The Sub-fund may incur costs and fees in connection with efficient portfolio management techniques. In particular, the Sub-fund may pay fees to agents and other intermediaries, which may be affiliated with the Depositary, the AIFM or the Management Company to the extent permitted under applicable laws and regulations, in consideration for the functions and risks they assume. The amount of these fees may be fixed or variable. Information on direct or indirect operational costs and fees incurred by the Sub-fund in this respect, as well as the identity of the entities to which such costs and fees are paid and any affiliation they may have with the Depositary, the AIFM or the Management Company, if applicable, will be available in the annual report.

The Sub-fund may incur fixed or variable brokerage fees and transaction costs upon entering into such techniques and instruments. Such transactions costs will be described in the annual report of the Sub-fund.

Under no circumstances, shall these operations cause the Sub-fund to diverge from its investment objective and policy.

##### **5.2 Securities Lending and borrowing /repurchase and reverse transactions**

The Sub-fund will not enter into securities financing transactions (SFT) such as securities lending, borrowing, repurchase and reverse transactions.

##### **5.3 Total Return Swap**

The Sub-fund may enter into total return swaps (which may be either funded or unfunded) which are swap agreements in which one party (total return payer) transfers the total economic performance of a reference asset to the other party (total return receiver). Total economic performance includes interest and fees, gain or losses from market movements and credit losses. These instruments will be carried out as part of the achievement of the management objective of the Sub- Fund, hedging, cash management and/or efficient portfolio management.

The AIFM expects that such transactions will apply to a range from 0% to 5% of the Net Asset Value, however the Sub-fund may enter into such transactions up to 50% of its Net Asset Value.

The assets of the Sub-fund which might be subject to total return swaps are usually ILS.

Details on the past utilization of these transactions are contained in the Sub –Fund's annual report.

The Sub-fund shall enter into any total return swaps with counterparties subject to prudential supervision rules considered by CSSF as equivalent to those prescribed by EU law and selected by the AIFM in accordance with its order execution policy available on its internet website. In this context, the AIFM will enter into such transactions with such counterparties established in an OECD Member State having a long term debt rated at least BBB- according to the ratings scale of Standard & Poor's (or deemed equivalent by the AIFM).

#### **5.4 Collateral Management**

##### Eligible Collateral

Collateral received by the Sub-fund may be used to reduce its counterparty risk exposure if it complies with the criteria listed in circulars issued by CSSF from time to time in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;
- it should be valued on a daily basis on a mark-to-market price basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place. Margin calls will be implemented in accordance with the terms negotiated in the collateral arrangements;
- it should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;
- it should be sufficiently diversified in terms of country, markets and issuers and shall not entail on an aggregate basis an exposure to a given issuer for more than 20% of its Net Asset Value. By way of derogation, the Sub-fund may be fully collateralized in different Transferable Securities or Money Market Instruments issued or guaranteed by any of the Member States, one or more of their local authorities, a third party sovereign country such as Canada, Japan, Norway, Switzerland and the United States of America, or any public international body to which one or more Member State(s) belong(s) such as the European Investment Bank, provided that it receives such securities from at least six different issues and that securities from any single issue should not account for more than 30% of the Net Asset Value;

- the financial guarantees received by the Sub-fund will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider.
- it should be capable of being fully enforced by the AIFM for the account of the Sub-fund at any time without reference to or approval from the AIFM.

#### Haircut policy

In accordance with its internal policy relating to the management of the collateral, the AIFM shall determine:

- the required level of collateral; and
- the level of haircut applicable to the assets received as collateral, taking into account in particular the type of assets, the credit standing of the issuers, the maturity, the currency, the liquidity and the price volatility of the assets.

#### Eligible assets

As long as it complies with the conditions mentioned in the paragraph “Eligible collateral” above, the collateral may consist of (i) sovereign OECD bonds; and/or (ii) direct investment in bonds issued or guaranteed by first class issuers offering adequate liquidity or shares listed or dealt on a regulated market of a member state of the European Union or on a stock exchange of a member state of the OECD provided that they are included in a main index.

#### Reinvestment of collateral

The Sub-fund will be able to reinvest the financial guarantees received in accordance with the applicable regulation. The financial guarantees other than cash cannot be sold, reinvested or pledged. The counterparty will be able to reinvest the financial guarantees received from the Sub-fund in accordance with any regulation applicable to the counterparty.

## **6 CURRENCY HEDGING**

In order to manage the currency risk associated with Rhea’s assets and liabilities denominated in currencies other than the Base Currency, the AIFM may employ all available techniques and instruments intended to provide currency rate exchange protection with respect to the assets of Rhea and its Units. All costs, gains and losses of such hedging transactions are borne separately by the respective Classes.

## **7 RISK CLASSES**

- (a) California Earthquake  
An earthquake in the state of California in the U.S.;
- (b) New Madrid Earthquake  
An earthquake in the following states of the U.S.:



Alabama, Arkansas, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin;

- (c) Other US Earthquake (excluding California Earthquake and New Madrid Earthquake)

An earthquake in the states of the U.S. other than specified in (a) and (b);

- (d) U.S. Southeast Hurricane

Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:

Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas;

- (e) U.S. Northeast Hurricane

Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the following states of the U.S.:

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Illinois, Indiana, Michigan;

- (f) Other U.S. Hurricane

Hurricane, meaning a storm or storm system that has been declared by the National Hurricane Center or any other competent body to be a hurricane and includes wind, gusts, hail, rain, tornadoes or cyclones by, resulting from or occurring during such storm system in the states of the U.S. other than those specified in (d) and (e);

- (g) Non-Hurricane Windstorm in the U.S.

Any form of windstorm that is not included above in (d), (e) or (f) and may include severe thunderstorms, extra-tropical cyclones, hail storms, snow storms and other winter storms;

- (h) Japan Earthquake

An earthquake in Japan;

- (i) Japan Wind

A typhoon (referred as tropical cyclone) in the Country of Japan;

- (j) Other Earthquakes

An earthquake in countries or states other than specified in (a), (b), (c) and (h). This category might include Risk such as Mexico earthquake, Canada earthquake, Israel earthquake, European earthquake etc.;

- (k) Europe Wind  
A wind storm (referred as extra tropical cyclones or winter storms) in the following countries:  
  
Albania, Andorra, Austria, Belarus, Belgium, Bosnia, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Eire, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovakia, Slovenia, Sweden, Switzerland, Spain, Turkey, Ukraine, United Kingdom and Vatican City;
- (l) Extreme Mortality  
World-wide mortality events;
- (m) Any other risk class that do not fall into any other risk class above. This category is not restricted to natural catastrophes or life related risks and might include all types of insurable risks;
- (n) Any second or subsequent event where the collateral obligation is structured such that it can only default on a second or subsequent event from a peril or combination of perils from the above list in class (a) to class (m).

The AIFM will determine in good faith and in a commercially reasonable manner in which risk class(es) the insured perils associated with each asset of Rhea will fall into.

While certain ILS only cover a single event risk, many ILS can cover several event risks at once. Therefore, these ILS can fall into several risk classes.

## 8 LEVERAGE RESTRICTIONS

The Leverage is controlled and shall not exceed (as a ratio of exposure of Rhea and its NAV) three hundred percent (300%) when using the gross method and two hundred percent (200%) when using the commitment method.

Rhea's exposure is calculated by the AIFM, as the case may be, in accordance with two cumulative methods: the "gross method" and the "commitment method". The gross method gives the overall exposure of the Sub-fund whereas the commitment method gives insight in the hedging and netting techniques used by the AIFM, as the case may be.

### Direct leverage

The AIFM may be required to borrow funds to make investments, pay expenses or answer margin calls on ILS investments or FX hedges transactions pending Rhea's receipt of the Issue Price from Investors or other receipts of cash.

Any borrowings shall be within the guidelines set forth by first class banks/debt providers and in line with the SIF Law.

### Indirect leverage

The AIFM may create indirect leverage for hedging and investment purposes (by using, by way of illustration but without limitation, financial derivatives instruments, reinsurance agreements, etc...).

## **9 ELIGIBLE INVESTORS**

Units in Rhea are exclusively available to Investors residing in any of the countries registered on the list of eligible countries as maintained by the AIFM. The AIFM may add or remove countries from the list of eligible countries in its sole discretion from time to time.

## **10 TERM**

Rhea is established for an unlimited period of time. Its Pools, however, if and when created, will each time be established for a limited or an unlimited period duration as described in this section 10.

Unless Rhea is terminated earlier upon the occurrence of certain events specified in the Fund Documents, or if the Management Company decides, in consultation with the AIFM and having obtained prior approval of the Investors (unless the Management Company is exercising its redemption rights without the need of such approval as detailed under section 13. of this Supplement), to redeem all the Units in Rhea, the following terms will apply:

The **B Pools** will have a limited duration, whereby any B Units issued and outstanding shall be progressively redeemed and principal on these B Units shall be progressively returned to the Investors holding these B Units on each occasion on which proceeds are received in connection with the redemption of Illiquid ILS comprised within the relevant B Pool; such proceeds will be distributed to Investors holding such B Units by way of redemption of their B Units. For the avoidance of doubt, the AIFM will continue to manage the assets allocated to the B Pools but it will not reinvest the proceeds received in connection with the redemption of these Illiquid ILS.

The AIFM will manage the assets of the Sub-fund in accordance with Rhea's investment objective, policy and restrictions. The AIFM may reinvest all or part of available proceeds of the Sub-fund, except those in connection with the assets allocated to the B Pools which will be distributed as set out in this Supplement.

The Management Company may also decide, in consultation with the A IFM, to redeem part or all of the Units of Rhea and to return principal to Investors. In this event, proceeds received in connection with the redemption or sale of assets comprised within Rhea's portfolio may be distributed to Investors by way of redemption of Units.

For the avoidance of doubt, any issued and outstanding Units will remain subject to Rhea's terms and conditions and in particular the redemption provisions described under section 3. of this Supplement.

## 11 SUBSCRIPTION AND ISSUE OF UNITS

The Management Company may issue different Classes in Rhea as appropriate. These Classes will carry different rights and obligations as described in this section 11.

Investors wishing to subscribe for A Units must in accordance with the procedure described under section 11. of the Issuing Document deliver a complete Subscription Form (to be received by the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the relevant Valuation Point) and pay the entire Subscription Amount (for receipt by the Administrative Agent) by no later than the day falling one (1) Business Day after the relevant Valuation Point.

### 11.1 Classes and subscription process

#### Classes

The Management Company will issue the following A Units Sub-Class at the launch of Rhea:

- Capitalisation Units denominated in USD (**Units I-A**).

The Management Company may also issue the following A Units Sub-Classes:

- Distribution Units denominated in USD (**Units II-A**);
- Capitalization Units denominated in EUR (**Units III-A**);
- Distribution Units denominated in EUR (**Units IV-A**);
- Capitalization Units denominated in CHF (**Units V-A**); and
- Distribution Units denominated in CHF (**Units VI-A**).

The Management Company reserves the right to issue further A Units Sub-Classes, as determined in its sole and absolute discretion (including, without limitation, A Units Sub-Classes denominated in currencies other than the ones listed above).

The Management Company may issue each Unit Sub-Class in different Series, each Series corresponding to different fee schedule (in terms of Management Fees and Performance Fee) applicable to the relevant Investors. Series will be numbered from 1 to 100.

The Management Company may, under certain circumstances as described under section 14, convert A Units into non redeemable B Units and issue the corresponding non-redeemable B Units to each Redeeming Investor whose A Units have been so converted. Such B Units will be issued in different Sub-Series, each Sub-Series corresponding to a different Redeeming Investor.

Sub-Series will be numbered from 1 to 100. The Management Company will issue further Sub-Series of B Units to additional Redeeming Investors, depending on the number of such Redeeming Investors; a new B Pool will be created on each occasion on which a new Sub-Series of B Units will be issued (it being understood however that the same B Pool will be used in relation to the subsequent issues of B Units towards one given Redeeming Investor having delivered several Redemption Notices relating to the same Series of A Units – i.e. a

new B Pool will not be created on such occasion). Each conversion of A Units into B Units shall each time also take into account the relevant Sub-Class and Series, as applicable.

For example and by way of illustration:

- the first Redeeming Investor (in chronological order) requesting the redemption of some of its Units I-A-1 will receive, on a *pro rata* basis, Units I-B-1-1; such Units I-B-1-1 will track the performance of the Illiquid ILS allocated to the B Pool I-1-1 which will be created at the time of this issue of Units I-B-1-1; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units I-A-1, Illiquid ILS will be allocated to the same B Pool I-1-1 and additional Units I-B-1-1 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days;
- the second Redeeming Investor (in chronological order) requesting the redemption of some of its Units I-A-1 will receive, on a *pro rata* basis, Units I-B-1-2; such Units I-B-1-2 will track the performance of the Illiquid ILS allocated to the B Pool I-1-2 which will be created at the time of this issue of Units I-B-1-2; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units I-A-1, Illiquid ILS will be allocated to the same B Pool I-1-2 and additional Units I-B-1-2 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days;
- the third Redeeming Investor in chronological order (but, for the avoidance of doubt, the first Redeeming Investor, in chronological order, requesting the redemption of some Units II-A-1) requesting the redemption of some of its Units II-A-1 will receive, on a *pro rata* basis, Units II-B-1-1; such Units II-B-1-1 will track the performance of the Illiquid ILS allocated to the B Pool II-1-1 which will be created at the time of this issue of Units II-B-1-1; for the avoidance of doubt, if this Redeeming Investor delivers several Redemption Notices relating to its Units II-A-1, Illiquid ILS will be allocated to the same B Pool II-1-1 and additional Units II-B-1-1 will be issued to such Redeeming Investor if the Illiquid Condition exists on the relevant Redemption Days.

The Management Company may, under certain circumstances as described under section 14, convert A Units into C Units and issue the corresponding C Units to each Investor whose A Units have been so converted.

Each conversion of A Units into C Units shall each time also take into account the relevant Sub-Class and Series, as applicable.

#### Minimum Subscription Amount

In respect of each Investor, the minimum initial Subscription Amount in relation to the subscription of A Units shall be USD 1,000,000 (one million United States Dollars) or its equivalent in the relevant currency for non-USD denominated A Units. The Management Company, in its sole discretion, may decide to waive or modify the requirements relating to the minimum initial Subscription Amount in the A Units.

### Subscription process

The Management Company will not issue A Units on the Subscription Day unless the application for subscription of such A Units has been received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days preceding the Valuation Point immediately preceding the Subscription Day. Otherwise such application shall be deemed to have been received late and will, unless the Management Company determines otherwise in its discretion, be applied in relation to the next following Subscription Day. Nonetheless, the Management Company will have the right, in its own discretion, to accept applications not complying with the principles set forth in this paragraph.

Subscription requests made in accordance with the foregoing procedure shall be irrevocable.

Payments of the Subscription Amount as specified in section 0 of this Supplement shall be made for receipt by the Administrative Agent by not later than the day falling one (1) Business Day after the relevant Valuation Point in the Base Currency or any other currency specified by the Investor (in which case the cost of any currency conversion shall be borne by the Investor).

The Management Company may also, but is not obliged to, agree to issue A Units as consideration for a contribution in kind of securities or other assets (including, for the avoidance of doubt, Units issued by another Sub-fund), provided that such securities or other assets comply with the investment objective, policy and restrictions of the relevant Sub-fund. Any costs incurred in connection with a contribution in kind of securities shall be borne by the relevant Investor.

Failing receipt of this payment, the application will be considered as cancelled or will be carried over to the immediately following Subscription Day (as determined in the Management Company's sole discretion), at which time A Units will be issued to the Investor at the price determined on the next following Subscription Day.

## **11.2 Pool terms and conditions**

All the assets and liabilities of Rhea, save for any assets allocated to each of the B Pools and to the C Pool pursuant to section 14. of this Supplement, will constitute a single sub-pool of assets within Rhea.

**B Pool(s):** B Units of Rhea shall be progressively redeemed and principal on these B Units shall be progressively returned to the Investors holding these B Units on each occasion on which proceeds are received in connection with the redemption of Illiquid ILS comprised within the relevant B Pool; such proceeds will be distributed to Investors holding such B Units by way of redemption of their B Units.

For the avoidance of doubt, (i) the AIFM will continue to manage the assets allocated to the B Pools but it will not reinvest the proceeds received in connection with the redemption of these Illiquid ILS and (ii) the AIFM will manage the assets of Rhea in accordance with Investment Policy of Rhea for an unlimited duration and may reinvest all or part of available

proceeds of the Sub-fund, except those in connection with the assets allocated to the B Pools which will be distributed as set out in this Supplement.

### 11.3 Issue Price per Unit

- (a) The Issue Price per A Unit to be issued will correspond to the NAV per Unit as applicable as at the relevant Subscription Day, in respect of which the application for subscription in the Fund is received by the Administrative Agent, plus, in the sole discretion of the Management Company, (i) a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit, to the benefit of Rhea, if this provision is a negative number (and the Subscription Anti-Dilution Levy so added will be equal to the absolute value of such provision) and/or (ii) a Subscription Charge of up to five (5) per cent of the NAV per A Unit, or less, in the sole discretion of the Management Company, a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit if this provision is a positive number (and the Subscription Anti-Dilution Levy so deducted will be equal to such provision) and provided however, that the Management Company may, in its sole discretion, waive to add the Subscription Anti-Dilution Levy to the Issue Price or to deduct the Subscription Anti-Dilution Levy from the Issue Price (as applicable) in its sole and absolute discretion. The NAV taken as the basis of the settlement of the subscription order is therefore not known when the order is placed (*forward pricing*).

Units I-A are “capitalization” Units – profits and proceeds will be reinvested for the benefit of the holders of the relevant A Units.

Units II-A are “distribution” Units – profits and proceeds may be distributed or not, in whole or in part, at the absolute discretion of the Management Company, to the holders of the A Units from time to time. Investors should note that, due to the distribution of profits and proceeds on the “distribution” Units, the NAV per A Unit of the “capitalization” Units should, in principle, be higher and the “capitalization” Units should offer more growth.

- (b) Non-redeemable B Units will be issued to a Redeeming Investor pro rata to its redemption request in total on each occasion when the Illiquid Condition exists on the relevant Redemption Day. The amount of B Units which will be issued to a Redeeming Investor on each such occasion will be equal to the applicable A-B Conversion Amount.

A portion of each Illiquid ILS comprised within the Sub-fund’s portfolio (excluding, for the avoidance of doubt, the Illiquid ILS which have already been allocated to the B Pool(s)) as of the relevant Redemption Day will be allocated to the relevant B Pool(s) on a pro rata basis (i.e. each such Illiquid ILS will be allocated to the relevant B Pool for an amount equal to the value of such Illiquid ILS on the relevant Redemption Day multiplied by the Redeemable Factor applicable to the Redeeming Investor on such Redemption Day). Each Illiquid ILS will be accounted for separately within the relevant B Pool(s) and each B Unit issued in respect of each such B Pool(s) will track the performance of the relevant Illiquid ILS comprised within such B Pool(s) until the maturity date of such Illiquid ILS occurs.

B Units will be issued pursuant to an A-B Conversion (as described under section 14. of this Supplement), at a fixed Issue Price per Unit as follows:

- Units I-B: USD 1,000 (one thousand United States Dollars);
- Units II-B: USD 1,000 (one thousand United States Dollars);
- Units III-B: EUR 1,000 (one thousand Euros);
- Units IV-B: EUR 1,000 (one thousand Euros);
- Units V-B: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-B: CHF 1,000 (one thousand Swiss Francs).

For the avoidance of doubt, other Sub-Classes of B Units corresponding to other Sub-Classes of A Units may be issued by the Management Company.

Each B Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Rhea, to be allocated thereto as at the Net Asset Value of the relevant B Unit determined at the date of the relevant valuation or liquidity event.

- (c) Subject to the prior information and authorization by the *Commission de Surveillance du Secteur Financier*, and either pursuant to the fast track or regular procedure for the creation of side-pockets, non redeemable C Units will be issued to existing Investors only, *pro rata* to their then current interest in the relevant A Units, on each occasion when a Tradable ILS of Rhea becomes illiquid or is deemed by the Management Company or AIFM to be an illiquid asset. Each such illiquid asset will then be entirely comprised within the C Pool and will be allocated to each Investor on a *pro rata* basis (i.e. based on (a) the value of A Units issued, outstanding and held by such Investor over (b) the total value of A Units issued and outstanding as of the relevant date). Each illiquid asset will be accounted for separately within the C Pool and each C Unit issued in respect of each such illiquid asset will track the performance of the relevant asset until a valuation or liquidity event occurs.

C Units will be issued pursuant to an A-C Conversion (as described under section 14. of this Supplement), at a fixed Issue Price per Unit as follows:

- Units I-C: USD 1,000 (one thousand United States Dollars);
- Units II-C: USD 1,000 (one thousand United States Dollars);
- Units III-C: EUR 1,000 (one thousand Euros);
- Units IV-C: EUR 1,000 (one thousand Euros);
- Units V-C: CHF 1,000 (one thousand Swiss Francs); and
- Units VI-C: CHF 1,000 (one thousand Swiss Francs).

For the avoidance of doubt, other Sub-Classes of C Units corresponding to other Sub-Classes of A Units may be issued by the Management Company.

Each C Unit will bear its *pro rata* share of any costs and expenses, including but not limited to, a proportional participation in the formation expenses of the Fund and Rhea, to be allocated thereto as at the Net Asset Value of the relevant C Unit determined at the date of the relevant valuation or liquidity event.



## **12 TRANSFER OF UNITS**

Transfers of Units in Rhea shall be subject to the rules set forth in section 13. of the Issuing Document. For the avoidance of doubt, the Management Company can only withhold its prior approval to a Transfer if the proposed Transfer violates or threatens to violate (i) any applicable law or (ii) the Management Company's internal policy.

## **13 REDEMPTION OF UNITS**

- (d) Subject to the limitations set forth in paragraphs f), (p) and (q) below, Rhea shall redeem all or part of the A Units of a Redeeming Investor in cash and "in kind" (as explained below in paragraph b)) (if the Illiquid Condition exists on the relevant Redemption Day) upon request of such Redeeming Investor as specified in a qualifying Redemption Notice delivered to the Administrative Agent by no later than 12:00 noon (Luxembourg time) on the day falling thirty (30) Business Days before the relevant Valuation Point, otherwise such application shall be deemed to have been received for purposes of a redemption at a price to be determined on the next following Redemption Day.
- (e) Except as set forth in paragraph j) below, the redemption of A Units will be satisfied:
  - in cash for an amount up to the applicable Available Redeemable Amount on the relevant Redemption Day; and
  - "in kind" which means: by the issuance of B Units if the Illiquid Condition exists on the relevant Redemption Day, for an amount equal to the A-B Conversion Amount.
- (f) B Units in the relevant Sub-Class will be issued to each Redeeming Investor on the relevant Redemption Day if the Illiquid Condition exists on such Redemption Day pursuant to an A-B Conversion described under section 14. of this Supplement. The amount of B Units which will be issued to a Redeeming Investor on each such occasion will be equal to the A-B Conversion Amount determined on such Redemption Day.
- (g) C Units may not be redeemed upon request of Investors but will be compulsorily redeemed, and the proceeds applied for purposes of a C-A Conversion, as described under section 14. of this Supplement, on each occasion when a relevant asset is realized or deemed realized, or becomes liquid at the sole discretion of the Management Company or the AIFM and A Units of the corresponding Class, Sub-Class and Series will be issued to each relevant Investor at the last available NAV per A Unit of the relevant Class, Sub-Class and Series. For the avoidance of doubt, in the event that one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the C Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of C Units will be distributed to the holders of such Sub-Classes of C Units.
- (h) Subject to the limitation set forth in paragraph f) below, as of a Redemption Day, the value of A Units that will be redeemed in cash will not exceed the applicable Available

Redeemable Amount on such day. The following amounts may be deducted (as determined by the Management Company or the AIFM) from the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request: (i) a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit, to the benefit of Rhea, if this provision is a positive number (and the Redemption Anti-Dilution Levy so deducted will be equal to such provision), and (ii) a Redemption Charge of up to five (5) per cent of the NAV per A Unit. A Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit if this provision is a negative number may be added (as determined by the Management Company in its sole and absolute discretion) to the Redemption Price that will be paid to the relevant Redeeming Investor in cash in satisfaction of its redemption request (and the Redemption Anti-Dilution Levy so added will be equal to the absolute value of such provision). The NAV taken as the basis of the settlement of the redemption order is not known when the order is placed (*forward pricing*).

- (i) In addition, if in relation to any Redemption Day, the value of the aggregate number of A Units to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than ten (10) per cent. Of Rhea's Net Asset Value published as at the latest previous Valuation Point (the **Threshold**), the Management Company may decide that such requests for redemption in excess of the Threshold will be automatically deferred proportionally to the next Redemption Day (the **Deferred Redemptions**), provided with respect to each Redemption Day, each Investor will not be authorized to submit a Redemption Notice for an amount greater than the Threshold except if it is expressly accepted by the Management Company. If an Investor submits a Redemption Notice for an amount greater than the Threshold, the amount indicated in such Redemption Notice will be deemed to be the Threshold and the portion of the redemption request of such Investor in excess of the Threshold will not be automatically deferred in full to the next Redemption Day but shall be deferred only for a portion of such redemption request lower than or equal to the Threshold. In relation to each next Valuation Point, Deferred Redemptions will not be met in priority to redemption requests made on such next Valuation Point; i.e. the Threshold will be applied *pro-rata* (including, for the avoidance of doubt, Deferred Redemptions), unless otherwise decided by the Management Company.
- (j) The payment of the proceeds that will be returned to the relevant Redeeming Investor in cash in satisfaction of its redemption request shall be made within three (3) Business Days after the Redemption Day. Payment will be made by wire transfer.
- (k) The Management Company may in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation with the AIFM, that disposal or valuation of a portion of the assets of Rhea is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of A Units is not in the best interests of Rhea.
- (l) The AIFM may also, with the consent of the Management Company, temporarily suspend the determination of the Net Asset Value per Unit of Rhea and/or the issue and redemption of its A Units under specific circumstances (such as, without

limitation, when the AIFM determines that the market(s) on which the relevant ILS are traded suddenly become illiquid or following the occurrence of an Insured Event).

- (m) The Management Company generally expects to distribute cash to the Investors in satisfaction of redemption requests (except for the B Units which will be issued to Redeeming Investors pursuant to an A-B Conversion), provided, however, that under certain circumstances and on an exceptional basis (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units, subject to the Investors' prior written approval (including by email) on such redemption in-kind. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Rhea prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.
- (n) Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company shall furthermore cause the redemption of the Units of any Investor, if in the Management Company's reasonable opinion, (i) such Investor holds Units directly or beneficially in breach of any law or requirement of any country, governmental or regulatory authority or is otherwise unable to provide the Administrative Agent with any documentation or information that it may reasonably request from time to time or (ii) the existence of such person as an Investor causes or threatens to cause the Fund or the Sub-fund to incur any liability to taxation or to suffer any pecuniary disadvantage in any jurisdiction which it would otherwise not have expected to incur or suffer or (iii) such Investor is not a Well-Informed Investor anymore.
- (o) The Management Company may also cause the redemption of all the Units of Rhea, if net assets of Rhea have decreased to an amount equal to ten million United States Dollars (USD 10,000,000.00).

## 14 CONVERSION OF UNITS

Subject to the prior approval of the Management Company, Units of Rhea may be converted into Units of another Sub-fund of the Fund and Units of any other Sub-fund of the Fund may be converted into Units of Rhea.

Conversions into other Unit Class of Rhea will only be allowed in accordance with the following rules:

- 1 A Units of a Redeeming Investor in an amount equal to the applicable A-B Conversion Amount will be compulsorily redeemed by the Management Company if the Illiquid Condition exists on a given Redemption Day, in which case the redemption proceeds of such redemption shall be applied to purchase the relevant Series of Units I-B, Units II-B, Units III-B, Units IV-B, Units V-B and Units VI-B (or other Sub-Classes of B Units corresponding to other Sub-Classes of A Units which could be created, as the case may be) at the fixed Issue Price set forth in section 11.3 b. (each such conversion shall be referred to as an **A-B Conversion**).

- 2 In case one or more Tradable ILS within Rhea's portfolio becomes illiquid or are deemed by the Management Company or the AIFM to be illiquid assets (in each case acting in a commercially reasonable manner), up to twenty (20) per cent of the aggregate amount of A Units issued an outstanding may be compulsorily redeemed by the Management Company, in which case the redemption proceeds of such redemption shall be applied to purchase the corresponding Sub-Class of C Units (i.e. the relevant Sub-Class of Units I-C, Units II-C, Units III-C, Units IV-C, Units V-C and Units VI-C (or other Sub-Classes of C Units corresponding to other Sub-Classes of A Units which could be created as the case may be)) at the fixed Issue Price set forth in section 11.3 c. (each such conversion shall also be referred to as an **A-C Conversion**).
- 3 On each occasion on which an asset allocable to the C Units is realized or deemed realized, or becomes liquid (as determined by the Management Company or the AIFM, in each case acting in a commercially reasonable manner) the process described in sub-section 2. above will be reversed, i.e., the relevant C Units will be compulsorily redeemed by the Management Company and the redemption proceeds will be applied to purchase the corresponding Sub-Class of A Units at the then last available NAV per Unit, on behalf of the Investor (each such conversion a **C-A Conversion**). For the avoidance of doubt, in the event that (i) one or more Sub-Classes of A Units are no longer outstanding at the time when an asset comprised within the C Pool is realized or becomes liquid, then the proceeds of the redemption of the corresponding Sub-Classes of C Units will be distributed to the holders of such Sub-Classes of C Units.
- 4 Upon receipt by the Administrative Agent of (i) a duly completed conversion request form or any other written notification acceptable to the Administrative Agent and (ii) a duly completed transfer form together with any other documentation that may be requested by the Administrative Agent from time to time, a conversion of Series within a specific Sub-Class in favor of an Investor may be accepted by the Management Company (each such conversion a **Series Conversion**). The application for such a Series Conversion within a specific Sub-Class must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.
- 5 Upon receipt by the Administrative Agent of (i) a duly completed conversion request form or any other written notification acceptable to the Administrative Agent and (ii) a duly completed transfer form together with any other documentation that may be requested by the Administrative Agent from time to time, a conversion of Units within another Unit Sub-Class in favor of an Investor may be accepted by the Management Company (each such conversion a **Unit Sub-Class Conversion**).

The application for such a Unit Class Conversion within a specific Class must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling five (5) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.

## 15 **BASE CURRENCY**

The NAV per Unit of each Sub-Class of the Sub-fund shall be expressed in the Base Currency of the relevant Sub-Class.

## 16 **VALUATION AND NET ASSET VALUE CALCULATION**

The valuation and calculation of the Net Asset per Unit will be effected as provided for in the Fund Documents.

In connection with certain securities or derivatives (including, without limitation, Illiquid ILS) for which no external pricing information is available, the AIFM may, for purposes of valuing such securities or derivatives, rely on internal assumptions or financial / pricing models (the **Relevant Mark-to-Model Valuation**).

## 17 **FEES AND EXPENSES**

### 17.1 **Management Fee**

The Management Company will be entitled to receive a Management Fee which will be paid monthly in arrears and based on the gross asset value of the Sub-fund as of the Valuation Point of each month. In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Sub-Fund.

The maximum Management Fee will be equal to two (2) per cent. (exclusive of VAT, if due) per annum of the total gross asset value of the Sub-fund as at the relevant month end.

The amount of Management Fees may differ between Sub-Classes and Series.

### 17.2 **Performance Fee**

The Management Company is entitled to a performance fee (a **Performance Fee**), which will be calculated in respect of each reference period (each a **Reference Period**).

The first Reference Period starts on the Initial Subscription Day (inclusive) and ends on 31 December, 2014. Each subsequent Reference Periods correspond to Rhea's accounting year and shall commence on 1 January and end on (i) 31 December of each year (if the Sub-fund has not been liquidated as of this date) or (ii) the date on which the Sub-fund is liquidated.

The Management Company may decide, in its sole and absolute discretion, to waive the application of the Performance Fees in relation to certain Sub-Classes and Series.

**Performance Calculation Day:** on any Valuation Point, if the Out-Performance (as defined below) is positive, a performance fee provision amounting to a maximum of seventeen and a half (17.5) per cent. of the Out-Performance (depending on the relevant Series of Unit Sub-Class) is retained. If the Out-Performance is positive but lower than that of the previous

Valuation Point, this provision is adjusted through write-backs up to the total of existing provisions.

The **Out-Performance** is defined as the difference between Rhea's NAV (net of all fees and costs but accrued Performance Fees), and the net asset value of a benchmark fund, which performance is equal to the performance of the benchmark index (the **Benchmark Fund**).

The following has to be replicated in the **Benchmark Fund**:

- the same variation of subscriptions as the Units;
- in case of redemptions or distribution payments, the Benchmark Fund value is reduced according to the following ratio: amount redeemed or distributed divided by the NAV of Rhea.

At the end of the Reference Period, provided that a performance fee provision is retained, Performance Fees are paid to the Management Company. The Benchmark Fund's value is then adjusted to that of Rhea's NAV for the following Reference Period. If no provision remains at the end of the Reference Period, no Performance Fee is paid to the Management Company, and the Benchmark Fund's value is kept unchanged for the following Reference Period.

In case of redemption of Units or distribution payments, a proportion of the Performance Fee provision will be paid to the Management Company at the time of such redemption or distribution payment (as applicable), corresponding to (i) the ratio of the amount of Units redeemed divided by the total number of Units of the relevant Class in case of a redemption and/or (ii) the ratio of the amount distributed divided by the NAV of Rhea, in case of distribution payments.

A Performance Fee, once paid, will not be returned to Rhea, irrespective of subsequent losses.

From January 1<sup>st</sup>, 2023, **included**, the **Benchmark Index** is equal to:

- the SOFR Compound Rate + 300 basis points net for Classes of Units denominated in USD;
- the 1-month Euro Interbank Offered Rate (Euribor) rate + 300 basis points net for Classes of Units denominated in EUR;
- the SARON 1-month Compound Rate + 300 basis points net for Classes of Units denominated in CHF.

With respect to Sub-Classes of Units which are not denominated in USD, EUR or CHF, the Benchmark Index will be determined by the Management Company on a case by case basis.

### **17.3 Value added taxes**

All fees and expenses payable by Rhea as set out above are exclusive of value added taxes or other charges. Rhea shall pay all value added taxes or other charges as required.

## **18 PUBLICATION OF THE NET ASSET VALUE**

The NAV per Unit as well as the Issue Price are available at the registered office of the Management Company on the day falling no later than seven (7) Business Days after each Valuation Point.

## **19 FINANCIAL YEAR, AUDIT AND REPORTING**

### **19.1 Financial Year**

Other than the first and the last Financial Year, Rhea's Financial Year begins on 1 January of each year and ends on 31 December of the same year. The first Financial Year of Rhea begins on the establishment of the Fund and ends on 31 December 2011. The last Financial Year of Rhea begins on 1 January of the relevant year and ends on the date of the final liquidation distribution of Rhea.

### **19.2 Reporting**

In addition to the annual report, the AIFM shall periodically prepare a status report on Rhea's investments and activities during the applicable period.

The AIFM may establish such further reports as deemed necessary or useful.

## **20 DISTRIBUTIONS**

Regarding the distribution Units, the Management Company envisages making distributions during the life of Rhea, as determined in its sole discretion.

Distributions, if any, shall always be made in cash or in marketable securities.

## **21 CONSOLIDATION OF SUB-FUNDS**

Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company may not resolve to amalgamate Rhea with another Sub-fund of the Fund.

## **22 INVESTMENT RISKS RELATED TO THE SUB-FUND**

### **22.1 General**

An investment in Rhea involves certain risk factors and considerations relating to Rhea's structure and investment objective which prospective Investors should evaluate before

making a decision to invest in Rhea. No assurance can be given that Rhea will succeed in meeting its investment objective or that there will be any return on capital. Moreover, past performance is not a guarantee of future results.

An investment in Rhea is speculative, entail substantial risks and can, in the worst case scenario, result in the loss of the total capital contribution of the investor. Investors must be able to withstand the loss of their entire investment. If losses occur on a number of assets in the portfolio, that could result in a substantial reduction in the principal paid on the Units and Investors receiving less principal than the purchase price paid for the Units.

In particular, the number of A Units which will be redeemed in cash on a given Redemption Day will be limited to the Available Redemption Amount on such Redemption Day.

A substantial portion of the Sub-fund's portfolio may be comprised of Illiquid ILS; as a consequence, the amount of A Units which will be redeemed in cash on any Redemption Day can be very limited or nil and a substantial portion or all of the A Units may be compulsorily converted into non redeemable B Units on any Redemption Day.

In addition, the Management Company is empowered to charge (i) a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and/or a Redemption Charge of up to five (5) per cent. of the NAV per A Unit in relation to each redemption of A Units, to the benefit of Rhea and (ii) a Subscription Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and/or a Subscription Charge of up to five (5) per cent. of the NAV per A Unit in relation to each issue of A Units, to the benefit of Rhea. Except if the Management Company decides otherwise, the maximum value which may be redeemed on each Redemption Day is limited to ten (10) per cent. of the NAV published as at the latest previous Valuation Point. Up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable C Units in the event that one or more assets become illiquid.

Before making any investment decision with respect to the Units, any prospective Investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below. The following is a brief description of certain factors, which should be considered along with other matters discussed elsewhere in the Issuing Document. The following does however, not purport to be a comprehensive summary of all the risks associated with an investment in Rhea generally. Rather, the following are only certain particular risks to which Rhea is subject and that Rhea wishes to encourage prospective Investors to discuss in detail with their professional advisors.

An investment in Rhea requires a medium to long term commitment and there can be no assurance that Rhea will achieve its investment objective or that the Investors will receive any return or the return of their invested capital.

While the prospective Investor should make its own evaluation of the risks of investing in Rhea, it must consider, among other things, the following matters before making a decision to invest in Rhea.



Units require a medium to long-term commitment and are only redeemable subject to the terms disclosed. Prospective Investors should therefore be aware that they may be required to bear the financial risks associated with any investment in Rhea as long as they maintain their investment.

Financing strategies by Rhea may exacerbate the effect on the value of falls and rises in the value of Rhea's assets and falls in value may consequently affect Rhea's liquidity.

Any borrowing extended to Rhea may be terminated in circumstances including without limitation the following:

- (a) the amount of sums drawn exceeding specified proportions of the realization value of the assets;
- (b) an event occurs which will adversely affect the business, assets or financial condition of Rhea or its ability to comply with its obligations towards any lender. The availability of Rhea's financing facilities and its liability to repay sums is, therefore, subject to circumstances beyond Rhea's control, including movements in the value of its assets.

A termination of any financing facility as described above may have an adverse effect on an investment in any Units and may require assets to be sold prematurely or at a discount to market value.

Charges and expenses in connection with Rhea are not made uniformly throughout the life of Rhea and it is possible that an Investor may not receive back the full amount of its investment.

Rhea may be required to give security for its obligations in respect of any financing arrangement. Any enforcement of such security interest is likely to have an adverse effect on all the Units.

## **22.2 Recent Economic Events**

The global economy is currently experiencing a crisis in the credit markets as well as a general downturn and, in certain countries, a recession. Among the sectors that are experiencing particular difficulty due to current economic conditions are the CDO, leveraged finance and investment fund markets.

There exist significant risks for Rhea and Investors as a result of such economic conditions. These risks include, among others, (i) the likelihood that Rhea will find it more difficult to sell any of its assets in the secondary market, thus rendering it more difficult to dispose of certain assets and (ii) the possibility that, on or after the date hereof, the price at which assets can be sold by Rhea will have deteriorated from their effective purchase price. These additional risks may materially adversely affect the returns on the Units to Investors.

The credit crisis has an increasing impact on the economies of a number of jurisdictions who are members of the Organization of Economic Co-operation and Development (OECD).

The bankruptcy or insolvency of a major financial institution may have an adverse effect on Rhea, particularly if such financial institution is a hedge counterparty to a swap involving Rhea, or a counterparty to a buy or sell trade that has not settled with respect to an asset with Rhea. As is the case with the Lehman Brothers bankruptcy proceedings, the bankruptcy or insolvency of another financial institution may result in the disruption of payments to Rhea. In addition, as was the case with Lehman Brothers and Bear Stearns, the bankruptcy or insolvency of one or more additional financial institutions may trigger additional crises in the global credit markets which could have a significant adverse effect on Rhea, its assets and the Units.

It is possible that one of the effects of the global credit crisis will be an introduction of a significantly more restrictive regulatory environment including the implementation of new accounting and capital adequacy rules in addition to further regulation of derivative instruments. Such additional rules and regulations could, among other things, adversely affect Investor as well as the flexibility of the AIFM in managing the assets of Rhea.

### **22.3 Risk on Cross–Pool Liabilities for all Unit Classes**

Although there is a contractual and accounting allocation of assets and liabilities to the relevant Pools, there is no legal segregation with respect to Pools of the Sub-fund. Therefore, if the liabilities of a Pool exceed its assets, creditors of said Pool of Rhea may seek to have recourse to the assets allocated to the other Pools of Rhea.

As there is a contractual and accounting allocation of assets and liabilities without any legal segregation amongst Pools, a transaction relating to a Pool could affect the other Pools of Rhea.

### **22.4 Suitability**

Prospective purchasers of the Units should ensure that they understand the nature of such Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Units and that they consider the suitability of such Units as an investment in the light of their own circumstances and financial condition. An investment in Rhea should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

None of the Management Company or the AIFM or any of their respective affiliates makes any representation as to the proper characterization of the Units for investment or other purposes, as to the ability of particular investors to purchase Units for investment or other purposes under applicable investment restrictions or policies which may be applicable to them or as to the accounting, capital, tax and other regulatory or legal consequences of ownership of the Units. All institutions the activities of which are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Units are subject to any investment, capital or other restrictions.

## **22.5 Redemption Risk**

Investors may redeem Units in accordance with the terms of the Supplement. In particular, during the life of Rhea, the number of A Units which will be redeemed in cash on a given Redemption Day will be limited to the Available Redemption Amount on such Redemption Day. Large redemptions of Units might result in Rhea being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In addition, a significant redemption of Units may require Rhea to realize investments at values which are lower than the anticipated market values of such investments. This may cause a temporary imbalance in Rhea's portfolio, which may adversely affect the remaining Investors.

A substantial portion of the Sub-fund's portfolio may be comprised of Illiquid ILS; as a consequence, the amount of A Units which will be redeemed in cash on any Redemption Day can be very limited or nil and a substantial portion or all of the A Units may be compulsorily converted into non redeemable B Units on any Redemption Day.

In addition, the Management Company is empowered to charge a Redemption Anti-Dilution Levy of up to ten (10) per cent of the NAV per A Unit and a Redemption Charge of up to five (5) per cent. of the NAV per A Unit in relation to each redemption of Units, to the benefit of Rhea. Except if the Management Company decides otherwise, the maximum value which may be redeemed on each Redemption Day is limited to ten (10) per cent. of the NAV published as at the latest previous Valuation Point. Up to twenty (20) per cent of the aggregate amount of A Units issued and outstanding may be compulsorily converted into non-redeemable C Units in the event that one or more assets become illiquid.

The AIFM may also, with the consent of the Management Company, temporarily suspend the determination of the Net Asset Value per Unit of Rhea and/or the issue and redemption of its A Units under specific circumstances.

The Management Company may also in exceptional circumstances (such as, without limitation, in the event that the Management Company determines, in consultation with the AIFM, that disposal or valuation of a portion of the assets of Rhea is not reasonably practicable without being detrimental to the interests of the Investors) delay any redemption request for up to thirty-six (36) months, if the redemption of A Units is not in the best interest of Rhea.

Cash or securities may be distributed to redeeming Investors, as determined by the Management Company.

## **22.6 In-kind Distributions**

The Management Company generally expects to distribute cash to the Investors in satisfaction of their redemption requests (except for the B Units which will be issued to Redeeming Investors pursuant to an A-B Conversion), provided, however, that under certain circumstances (as determined by the Management Company in its sole discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to Rhea prior to such distribution that it satisfies the minimum

qualifications to be an investor in such securities and instruments under their governing instruments.

Such securities and instruments may not be readily marketable or sellable and may be required to be held by the Investor for an indefinite period of time. Investor receiving an in-kind distribution will be responsible for disposing of such distributed assets.

## **22.7 Illiquid ILS**

Illiquid ILS are purchased by the Sub-fund pursuant to purchase agreements (or other similar arrangements) which often contain indemnity provisions to the benefit of the administrator, the arranger and the issuer of such Illiquid ILS; as a result of these indemnity provisions, the amount which can be lost with respect to a given Illiquid ILS is not limited to the amount invested on such investment.

## **22.8 Investment Risk**

It should be remembered that the price of the Units can go down as well as up and that, on the redemption of their Units, Investors may not receive the amount that they originally invested.

The return on the Rhea's assets will primarily be dependent upon the availability and market price at which they can be purchased at the time investments are made and the time it takes for the Rhea's assets to reach maturity.

## **22.9 Illiquidity of the Investments**

The market prices of the assets of Rhea can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such assets may be greater than those prevailing in other securities market.

A portion of Rhea's portfolio will consist of securities and other financial instruments which are not actively and widely traded. In addition, many ILS and insurance-linked derivatives limit sales to investors in certain permitted jurisdictions. Consequently, it may be difficult for Rhea to dispose of such investments rapidly and at favorable prices in connection with redemption requests, adverse market developments or other factors. Illiquid securities may also be more difficult to value and may require pricing at Relevant Mark-to-Model Valuation as determined in good faith by the AIFM.

## **22.10 Unpredictability of Insured Events and Losses; Reliance on Catastrophe Risk Modeling**

Part of Rhea's investments is subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of Insured Events can be expected to result in volatility with respect to the Rhea'. A major loss or series of losses as a result of Insured Events may occur from time to time and, if affecting one or more of Rhea's investments, could result in material loss.

The results of analyses performed with models (provided by third party risk modeling firms or not), cannot be viewed as facts, projections, or forecasts of future losses and cannot be relied upon as an indication of the future return on the Rhea's investments. Actual loss experience can materially differ from that generated by such models.

Loss distributions produced by such models constitute estimated losses based on assumptions relating to, among other things, environmental, demographic and cost factors, many of which represent subjective judgments, are inherently uncertain and are beyond the control of the respective models agent (whether provided by third parties or not). The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge, alternative theories governing empirical relationships, and the random nature of Insured Events themselves. In addition, there can be no assurance that any or all of the risk modeling firms (if any) will continue to perform such analyses and, if so, the amount of resources dedicated to such efforts. No model of Insured Events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different risk modeling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to uncertainty. Professional risk modeling firms review their modeling assumptions from time to time in the light of new meteorological, engineering, and other data and information and refine their loss estimates as such information becomes available. Such refinements may materially alter, and have in the past materially altered, the loss estimates currently generated by these models.

The loss probabilities generated by such models are not predictive of future events, or of the magnitude of losses that may occur. Actual frequency of Insured Events and their attendant losses could materially differ from those estimated by such models. Potential investors in Rhea should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Modeling insured losses resulting from Insured Events is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM or by risk modeling firms.

## **22.11 Concentration of investments**

Rhea may at certain times hold relatively few investments. Rhea could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer or counterparty. Additionally, historical correlations may undergo dramatic change, thereby reducing expected diversification protection.

## **22.12 Currency Risk**

Assets of Rhea may be denominated in a currency other than the Base Currency and changes in the exchange rate between the Base Currency and the currency of the asset may lead to a depreciation of the value of the Rhea's assets as expressed in the Base Currency. It may not be possible or practical to hedge against such exchange rate risk. The AIFM may, but is not obliged to, mitigate this risk by using financial instruments. Rhea may from time to time enter into currency exchange transactions either on a spot basis or by buying currency exchange forward contracts. Neither spot transactions nor currency exchange forward contracts eliminate fluctuations in the prices of a Rhea's securities or in foreign exchange rates, or prevent loss if the prices of these securities should decline. Performance of Rhea may be strongly influenced by movements in foreign exchange rates because currency positions held by Rhea may not correspond with the securities positions held. Rhea may enter into currency exchange transactions and/or use techniques and instruments to seek to protect against fluctuation in the relative value of its portfolio positions as a result of changes in currency exchange rates or interest rates between the trade and settlement dates of specific securities transactions or anticipated securities transactions. Although these transactions are intended to minimize the risk of loss due to a decline in the value of hedged currency, they also limit any potential gain that might be realized should the value of the hedged currency increase. The precise matching of the relevant contract amounts and the value of the securities involved will not generally be possible because the future value of such securities will change as a consequence of market movements in the value of such securities between the date when the relevant contract is entered into and the date when it matures. The successful execution of a hedging strategy which matches exactly the profile of the investments of Rhea cannot be assured. It may not be possible to hedge against generally anticipated exchange or interest rate fluctuations at a price sufficient to protect the assets from the anticipated decline in value of the portfolio positions as a result of such fluctuations.

## **22.13 Swaps and Other Derivatives**

Rhea may enter into swap and similar derivative transactions involving or relating to Insured Events. A swap transaction is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) with payments generally calculated by reference to a principal ("notional") amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, Rhea is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which Rhea trades. The swap market is generally not regulated.

Speculative position limits are not applicable to swap transactions, although the counterparties with which Rhea deals may limit the size or duration of positions available to Rhea as a consequence of credit considerations.

Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.

#### **22.14 Counterparty and Credit Risk**

Most of the markets in which Rhea may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such "over-the-counter" transactions. This exposes Rhea to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing Rhea to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties.

The ability of Rhea to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by Rhea. In addition, the counterparties with which Rhea effects transactions may, from time to time, cease making markets or quoting prices in certain of the instruments.

Most of the ILS derivatives (i.e. catastrophe swaps and other types of derivatives enabling Rhea to gain exposure to the ILS asset class), synthetic securities, hedge agreements, currency hedge agreements, interest rate hedge transactions and securities lending agreements may involve Rhea entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to Rhea under certain circumstances. Rhea will be exposed to the credit risk of the counterparty with respect to any such payments.

#### **22.15 Ramp-up Period**

Because of the seasonability of the ILS issuances and the relatively small size of the ILS primary and secondary markets, there can be no assurance that the AIFM will manage to source enough assets meeting its investment criteria enabling it to build a well-diversified portfolio during the ramp-up period of Rhea.

#### **22.16 Extension or Acceleration of Maturity**

ILS and derivatives often provide for an extension of maturity following the occurrence of an Insured Event to enable the insurer to process and audit loss claims where an Insured Event has, or possibly has, occurred. Alternatively, the maturity could in certain circumstances be accelerated upon the occurrence of certain legal, regulatory, credit or structural events. An extension or acceleration of maturity may increase volatility.

#### **22.17 Performance Fee**

The Performance Fee payable to the Management Company by Rhea may create an incentive for the Management Company to cause Rhea to make investments that are riskier or more speculative than would be the case if there was no such arrangement.

In addition, because the Performance Fee is calculated on a basis that includes unrealized appreciation of Rhea's assets, it may be greater than if such compensation were based solely on realized gains.

#### **22.18 Diverse Investors**

The Investors may have conflicting investment, tax and other interests with respect to their investments in the Rhea. The conflicting interests of individual Investors may relate to or arise from, among other things, the nature of Investments made by Rhea, the structuring or the acquisition of investments, the timing of disposition of investments and the timing an proportion of Units redeemed by each such Investor.

In particular, it is intended that at least one Investor will represent a substantial part of the Units in issue of Rhea. The other Investors will most likely be influenced by the behavior of such Investor and the redemption of its Units in Rhea, if requested, may have a material adverse effect on the other Investors.

#### **22.19 U.S. Federal Income Tax Risks**

Issuers of ILS (**Issuers**) are typically special purpose companies (in some cases special purpose reinsurance companies) formed in Bermuda or the Cayman Islands. Issuers are formed and intend to operate in such a manner that would not cause them to be treated as engaged in the conduct of a trade or business within the United States. Such assessments are in certain instances supported by legal opinions that provide that, while there is no relevant authority and the analysis is highly factual, the Issuer would not be deemed to be so engaged under current U.S. federal income tax law. On this basis, the Issuer does not expect to be required to pay U.S. income tax with respect to its income. There can be no assurance, however, that the Internal Revenue Service (**IRS**) will not contend, and that a court would not ultimately hold, that the Issuer is engaged in the conduct of a trade or business within the United States. If the Issuer were deemed to be so engaged, it would, among other things, be subject to U. S. federal income tax, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business.

#### **22.20 Regulatory Risks**

The sale of ILS are typically limited to investors in certain regulatory jurisdictions, including Bermuda and many U.S. jurisdictions, where legal opinions or regulatory rulings have been obtained generally to the effect that purchasers of such securities resident of, and purchasing in, such jurisdictions are not required, by virtue of their purchase of such securities, to be licensed as insurers or reinsurers under the insurance laws of such jurisdictions. Issuer's counsel typically provides an opinion to the Issuer that purchasers will not be considered or treated as carrying on or transacting insurance business solely by virtue of investing in or holding the securities.

Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority to modify or withdraw interpretations or to impose additional requirements. There can be no assurance that any opinions of counsel provided to an Issuer or regulatory rulings will continue to be effective or favorable to Rhea or that a



modification in such legal opinions or regulatory rulings would not adversely affect Rhea. Furthermore, with respect to ILR that are structured as derivative transactions, in particular those that are OTC derivative financial instruments, such instruments are typically marketed and promoted in a different manner than ILS, whereby the legal opinions and regulatory rulings that are typically obtained by, as well as the representations and warranties customarily made by, the issuers and promoters of such securities may not be available with respect to insurance linked derivatives.

#### **22.21 Certain Legal Risks associated with the Investments**

The investments of Rhea may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers of payments, lender liability and the power of a court, receiver or liquidator to disallow, reduce, subordinate or disenfranchise particular claims.

#### **22.22 Absence of Operating History of Issuers of ILS**

The Issuers of ILS are typically newly formed special-purpose vehicles organized for the sole purpose of issuing the ILS. As such, such Issuers often have no operating history.

#### **22.23 Financing Arrangements; Leverage**

Rhea may use leverage in its investment program when deemed appropriate by the AIFM and subject to maximum leverage restrictions of three hundred percent (300%) when using the gross method and two hundred percent (200%) when using the commitment method. At times, the amount of such leverage may be substantial. Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. The more Rhea leverages itself, the more likely a substantial change will occur, either up or down, in the value of the Units of Rhea. Rhea may be subject to major losses in the event that large Insured Events force Rhea to liquidate positions at a disadvantageous time.

Through the use of repurchase agreements, total return swaps, bank loans and financing conduits, Rhea (subject to the availability of financing), will also be able to achieve a comparable degree of leverage on its "cash" securities positions. If loans to Rhea are collateralized with portfolio securities that decrease in value, Rhea may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses.

As a general matter, the banks and dealers that provide financing to Rhea can apply essentially discretionary margin, haircut, financing and security and collateral valuation policies. Changes by banks and dealers in margin, haircut, financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. In addition, the dealers have essentially discretionary authority to close out credit lines. There can be no assurance that Rhea will be able to maintain adequate financing, particularly in adverse market conditions. If it is not able to do so, forced portfolio liquidations and significant losses could result.

#### **22.24 Interest-Rate Risk**

The returns associated with the floating-rate securities in which Rhea may invest will be affected by changes in interest rates. Accordingly, if interest rates decline, the return of long positions in such securities will decline. Furthermore, if interest rates rise, the return of short positions in such securities will decline. In the event Rhea invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. The AIFM may hedge against such fluctuations in value but is not obligated to do so.

#### **22.25 Lack of Volume of Insurance-Linked Securities**

The volume (both in terms of number and dollar) of deals involving ILS may not be sufficient for Rhea to invest the optimal amount of its assets in such instruments.

#### **22.26 Valuation Risk**

Rhea may invest some of its assets in illiquid and/or unquoted securities and derivative instruments. Such investments and derivative instruments will be valued by the AIFM or its delegates in accordance with the provisions set out in the Fund Documents.

Such investments are inherently difficult to value and are the subject of substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales or “close-out” prices of such investments and the procedures put in place may be unable to detect every error contained in the valuation information.

To the extent the information received by Rhea is inaccurate or unreliable, the valuation of Rhea's securities and derivatives may be inaccurate. Rhea expects that it will primarily hold securities that will not have readily assessable market values. In such instances, the AIFM will determine the fair value of such securities in good faith based on various factors.

In connection with certain securities or derivatives for which no external pricing information is available, the AIFM may rely on internal pricing models. Such Relevant Mark-to-Model Valuations may vary from similar valuations performed by independent third parties for similar types of securities or derivatives. The valuation of illiquid securities and derivatives is inherently subjective and subject to increased risk that the information utilized to value the security or derivative or to create the price models may be inaccurate or subject to other error. Inaccurate valuations may, among other things, prevent Rhea from effectively managing its investment portfolios and risks, may result in Rhea exceeding certain investment guidelines (if any) and may affect the diversification and risk management of Rhea's portfolios. The value of Rhea's portfolio may also be affected by changes in accounting standards, policies or practices.

Due to a wide variety of market factors and the nature of investments to be held or entered into by Rhea, there is no guarantee that the value determined by the Administrative Agent will represent the value that will be realized by Rhea on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

ILS in the form of securities are private securities which are not actively traded and valuation of these securities has been difficult over the past years.

## **22.27 Risk related to Collateral Management**

Counterparty risk arising from investments in OTC financial derivative instruments is, subject to the applicable regulation, generally mitigated by the transfer or pledge of collateral in favor of Rhea. However, transactions may not be fully collateralized.

If a counterparty defaults, Rhea could realize a loss due, inter alia, to inaccurate pricing or monitoring of the collateral, adverse market movements, deterioration in the credit rating of issuers of the collateral or illiquidity of the market on which the collateral is traded.

Rhea may also incur a loss in reinvesting collateral received, where permitted. Such a loss may arise due to a decline in the value of the investments made.

Where permitted by the investment policy and subject to the applicable regulation, the Rhea's reuse of collateral received by it from its OTC derivative activity, within the limits set by applicable regulation, is likely to increase the Rhea's leverage and also increase the risks associated with the instruments into which cash collateral is invested, such as market risk, counterparty risk and liquidity risk.

## **22.28 Risks Related to ILS Collateral**

The collateral backing the ILS that Rhea will acquire may include certain assets, the quality of which has not been thoroughly assessed by the AIFM. In the event of a deterioration of such collateral, Rhea will not be able to recover the principal amount invested in such ILS.

## **22.29 Limited Number of Participants on the ILS Market**

There is currently a very limited number of active participants (i.e. banks, broker-dealers, investors) on the ILS market, therefore limiting, inter alia, the liquidity of the ILS in which Rhea may invest, the ability of Rhea to obtain various market quotations in relation to its investments, etc..

In addition, the bankruptcy of one of these participants will have material adverse consequences against Rhea and other market participants, the effect of which will be magnified as compared to less concentrated assets classes.

## **22.30 Reliance on the AIFM and Dependence on Key Personnel**

Subject to the limitations set forth in this Supplement, the AIFM has complete discretion in directing the investment of Rhea's assets and the selection and negotiation of the derivatives agreements. Rhea's success depends, to a great extent, on the AIFM's ability to select investments and negotiate derivatives. Rhea will be highly dependent on the financial and managerial experience of the AIFM and a limited number of persons of the AIFM to whom the task of managing the investment has been assigned. If the services of all or a substantial number of such persons were to become unavailable, the result of such a loss of key management personnel could result in substantial losses for Rhea.

**22.31 Substantial Charges**

Rhea is subject to substantial charges, and must generate profits and income which exceed their fixed costs in order to avoid depletion of its assets. Rhea is required to pay the service provider fees, expenses and commissions regardless of its performance.

**22.32 Custodial Risk**

The Management Company has entered into arrangements pursuant to which Rhea's assets are held by the Depositary. The bankruptcy of such Depositary might have a material adverse effect on Rhea.

**22.33 Sustainability Risk**

The Sustainability Risk is described in the section 32.7 of the general part of the Issuing Document of the Fund. Investors are therefore invited to refer to the aforementioned section of the Issuing Document.

Given Rhea investment strategy and risk profile, the likely impact of Sustainability Risks on Rhea returns is expected to be low.

**The investment risks set out in this Supplement do not purport to be exhaustive and potential Investors should be aware that an investment in Rhea may be exposed to risks of an exceptional nature from time to time.**

## **SUPPLEMENT TO THE ISSUING DOCUMENT OF AXA IM NOVALTO**

a mutual investment Fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

## **AXA IM MULTI-CREDIT STRATEGIES OPPORTUNITY FUND**

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## **1 NAME OF THE SUB-FUND**

The name of the sub-fund is AXA IM MULTI-CREDIT STRATEGIES OPPORTUNITY FUND (the **Sub-fund**).

## **2 DEFINITIONS AND INTERPRETATION**

### **2.1 Definitions**

Capitalized terms used in this Supplement have the meaning ascribed to them in the Issuing Document, unless otherwise defined herein:

**ABS** has the meaning ascribed to it in Sub-Sub-Section 3.1.2;

**AIFMD** Directive 2011/61/EU of the European Parliament and Council of 8 June 2011 on Alternative Investment Fund Managers;

**Applicable Deferred Redemption Price** has the meaning ascribed to it in Sub-Section 10.1;

**AUD** the currency of Australia;

**Balance Sheet Securitization** has the meaning ascribed to it in Sub-Sub-Section 3.1.1;

**Balance Sheet Securitization Issuer** has the meaning ascribed to it in Sub-Sub-Section 3.1.1;

**Base Currency** CHF;

**Buy and Hold Assets** has the meaning ascribed to it in Sub-Sub-Section 4.2.2;

**CAD** the currency of Canada;

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| <b>Calendar Day</b>                                | means any day of the week;  |
| <b>Cash Balance Sheet Securitization</b>           | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Category</b>                                    | has the meaning ascribed to it in Sub-Sub-Section 4.2.2;  |
| <b>Class</b>                                       | means each discrete and separate class of Units as described in Sub-Sub-Section 8.1.1;  |
| <b>Class A Units</b>                               | means the Class A-1 CHF (Capitalisation) Units, the Class A-2 EUR (Capitalisation) Units, the Class A-3 Hedged EUR (Capitalisation) Units, the Class A-4 GBP (Capitalisation) Units, the Class A-5 GBP Hedged (Capitalisation) Units, the Class A-6 USD (Capitalisation) Units and the Class A-7 USD Hedged (Capitalisation) Units; |
| <b>Class A Unit Investors</b>                      | means all Investors in any Class A Units;   |
| <b>Class A-1 CHF (Capitalisation) Units</b>        | means the Capitalisation Units denominated in CHF;  |
| <b>Class A-2 EUR (Capitalisation) Units</b>        | means the Capitalisation Units denominated in EUR;  |
| <b>Class A-3 EUR Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in EUR which are hedged;   |
| <b>Class A-4 GBP (Capitalisation) Units</b>        | means the Capitalisation Units denominated in GBP;  |



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| <b>Class A-5 GBP Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in GBP which are hedged;   |
| <b>Class A-6 USD (Capitalisation) Units</b>        | means the Capitalisation Units denominated in USD;  |
| <b>Class A-7 USD Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in USD which are hedged;   |
| <b>Class B Units</b>                               | means the Class B-1 CHF (Distribution) Units, the Class B-2 EUR (Distribution) Units, the Class B-3 Hedged (Distribution) Units, the Class B-4 GBP (Distribution) Units, the Class B-5 GBP Hedged (Distribution) Units, the Class B-6 USD (Distribution) Units and the Class B-7 USD Hedged (Distribution) Units; |
| <b>Class B Unit Investors</b>                      | means all Investors in any Class B Units;   |
| <b>Class B-1 CHF (Distribution) Units</b>          | means the distribution units denominated in CHF;  |
| <b>Class B-2 EUR (Distribution) Units</b>          | means the Distribution Units denominated in EUR;  |
| <b>Class B-3 EUR Hedged (Distribution) Units</b>   | means the Distribution Units denominated in EUR which are hedged;   |
| <b>Class B-4 GBP (Distribution) Units</b>          | means the Distribution Units denominated in GBP;  |
| <b>Class B-5 GBP Hedged (Distribution) Units</b>   | means the Distribution Units denominated in GBP which are hedged;   |

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| <b>Class B-6 USD (Distribution) Units</b>        | means the Distribution Units denominated in USD;  |
| <b>Class B-7 USD Hedged (Distribution) Units</b> | means the Distribution Units denominated in USD which are hedged;   |
| <b>CDO</b>                                       | has the meaning ascribed to it in Section 3;  |
| <b>CDO of ABS</b>                                | has the meaning ascribed to it in Sub-Sub-Section 3.1.6;  |
| <b>CLO</b>                                       | has the meaning ascribed to it in Sub-Sub-Section 3.1.3;  |
| <b>Credit Swap Transaction</b>                   | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Credit Transaction</b>                        | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Deferred Redemption</b>                       | has the meaning ascribed to it in Sub-Section 10.1;   |
| <b>Deferred Redemption Assets</b>                | has the meaning ascribed to it in Sub-Sub-Section 4.2.2;  |
| <b>Deferred Redemption Day</b>                   | with respect to a Deferred Redemption that has not been satisfied in full and a Deferred Valuation Point, a Business Day falling no later than thirty seven (37) Calendar Days after such Deferred Valuation Point; |
| <b>Deferred Threshold</b>                        | has the meaning ascribed to it in Sub-Section 10.1;   |
| <b>Deferred Valuation Point</b>                  | with respect to a Deferred Redemption, each Valuation Point falling after a date  |

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|   | when the Sub-fund has received disposal and/or redemption proceeds related to Deferred Redemption Assets;   |
| <b>Distribution Date</b>                                | has the meaning ascribed to it in Section 17.   |
| <b>Diversification Guidelines</b>                       | The maximum risk exposure the Sub-fund may have to any relevant Issuer or counterparty, as laid down in Sub-Sub-Section 4.3.4;  |
| <b>DKK</b>  | the currency of Denmark;  |
| <b>Direct Balance Sheet Securitization</b>              | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Eligible Assets</b>                                  | means any of the assets described in Sub-Sub-Section 4.3.1;   |
| <b>Eligible Currency</b>                                | AUD, CAD, CHF, DKK, EUR, GBP, JPY, NOK, NZD, SEK and USD;   |
| <b>EU Risk Retention and Due Diligence Requirements</b> | has the meaning ascribed to it in Sub-Sub-Section 20.2.6;   |
| <b>Europe</b>   | means the European Economic Area;   |
| <b>Exchange</b>   | any exchange or other debt restructuring of a Loan in which the Sub-fund has invested and under which the obligor of such Loan has offered the holders of or lenders thereof a new, restructured or amended obligation or package of obligations or other interest; |
| <b>Exchange Debts Securities</b>                        | means obligations or other interests (such as without limitation, warrants, equity shares, payment in kind that are received pursuant to an Exchange;   |

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| <b>F Exempted Assets</b>     | has the meaning ascribed to it in Sub-Section 14.2;  |
| <b>Financial Institution</b> | means a bank, insurance company, pension fund and/or any other financial institution;  |
| <b>Financial Guarantee</b>   | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;   |
| <b>Fixed Income Assets</b>   | means fixed income assets in the form of notes, bonds and any other form of financial instruments which generate income at regular intervals at reasonably predictable levels; |
| <b>GBP</b>                   | the currency of Great Britain;   |
| <b>Hedge Counterparty</b>    | has the meaning ascribed to it in Sub-Section 4.6;   |
| <b>Hedging Agreements</b>    | has the meaning ascribed to it in Sub-Section 4.6;   |
| <b>Hedging Strategy</b>      | the hedging strategy of the Sub-fund as described in Sub-Section 4.6;  |
| <b>High Water Mark</b>       | has the meaning ascribed to it in Sub-Section 14.3;  |
| <b>ILS</b>                   | has the meaning ascribed to it in Sub-Section 3.2;   |
| <b>Indicative Value</b>      | has the meaning ascribed to it in Section 13;  |
| <b>Initial Closing</b>       | the date on or prior to which the initial Subscription Agreements have to be   |

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|                                     | received and accepted by the Sub-fund in respect of the first offer of Units, anticipated to be 25 November 2015 or such later date as the Management Company may determine in its absolute discretion; |
| <b>Initiated CLO</b>                | has the meaning ascribed to it in Sub-Section 3.3;  |
| <b>Investment</b>                   | any investment by the Sub-fund;   |
| <b>Investment Grade</b>             | a rating of at least BBB- by Standard & Poor's or any equivalent rating by another rating agency;   |
| <b>Investment Guidelines</b>        | has the meaning ascribed to it in Sub-Sub-Section 4.3.2;  |
| <b>Investment Strategy</b>          | the investment strategy described in Sub-Section 4.2;   |
| <b>Issuer</b>                       | the issuer of a SSA (including, without limitation, Balance Sheet Securitization Issuer);   |
| <b>JPY</b>                          | the currency of Japan;  |
| <b>Liquidity Draw-Downs</b>         | has the meaning ascribed to it in Sub-Section 4.4;  |
| <b>Liquidity Facility Agreement</b> | has the meaning ascribed to it in Sub-Section 4.4;  |
| <b>Liquidity Provider</b>           | has the meaning ascribed to it in Sub-Section 4.4;  |

**Loans**

means any of the following assets:

- senior secured loans;
- subordinated loans including mezzanine loans;
- undrawn loans (such as revolving credit facilities (revolvers) and capital expenditure facilities (capex lines));

**Management Fee**

a fee payable to the Management Company, as more particularly described in Sub-Section 14.2;

**Management Fee Rate**

a rate of Management Fee applicable in respect of a given Sub-Class and Series;

**MBS**

has the meaning ascribed to it in Sub-Sub-Section 3.1.4;

**Net Proceeds**

on any Distribution Date and with respect to the relevant quarter preceding such Distribution Date:

- the amount of interest and other distributions received in respect of the Investments;
- plus, at the discretion of the Management Company, the whole or any part of the realised capital gains net of realized losses;
- plus, at the discretion of the Management Company, any other funds available for distribution (including funds resulting of the reimbursements or disposals of the investments),
- minus any fees, expenses and other obligations to be paid by the Sub-fund in respect of such period

|                                      |   |
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|                                      | (including, without limitation, the Management Fees, the depositary fees, the transactions commissions payable to the Depositary and other fees and expenses to be paid by the Sub-fund during such quarter); |
| <b>NOK</b>                           | the currency of Norway;   |
| <b>Non-Deferred Redemption</b>       | with respect to a redemption request, the portion of such redemption request that can be satisfied through the disposal and/or redemption of Tradable Assets;   |
| <b>Non-Deferred Redemption Price</b> | has the meaning ascribed to it in Sub-Section 10.1;   |
| <b>Non-Financial Institution</b>     | entities which are not Financial Institutions (such as, for instance and without limitation, governmental bodies or entities);  |
| <b>NZD</b>                           | the currency of New Zealand;  |
| <b>Originating Institution</b>       | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Performance Fee</b>               | has the meaning ascribed to it in Sub-Section 14.3;   |
| <b>PRIIPS KID</b>                    | key investor document for packaged retail and insurance-based investment products as required by the PRIIPs Regulations;  |
| <b>PRIIPs Regulations</b>            | Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products;                      |
| <b>Redemption Notice</b>             | the notice to redeem any Units sent by an Investor in accordance with Section 10;   |

|                                    |   |
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| <b>Redemption Price</b>            | <p>each of the followings (in each case, if applicable in relation to the relevant redemption request):</p> <ul style="list-style-type: none"> <li>– with respect to a Non-Deferred Redemption, the Non-Deferred Redemption Price; and/or</li> <li>– with respect to a Deferred Redemption, each Applicable Deferred Redemption Price;</li> </ul> |
| <b>Reference Entity</b>            | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Reference Period</b>            | has the meaning ascribed to it in Sub-Section 14.3;   |
| <b>Reference Portfolio</b>         | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;  |
| <b>Release Day</b>                 | the day which is the 30th Calendar Day after the relevant Valuation Point. If this day is not a Business Day, then the Release Day will be the next Business Day;   |
| <b>Risk Retention Requirements</b> | has the meaning ascribed to it in Sub-Section 4.7;  |
| <b>RRT</b>                         | has the meaning ascribed to it in Sub-Section 3.3;  |
| <b>SARON</b>                       | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator);  |
| <b>Section</b>                     | a section of this Supplement;   |
| <b>SEK</b>                         | the currency of Sweden;   |
| <b>Series</b>                      | means a series of Units within a Class or Sub-Class, each of which has the same terms and conditions, including with respect to fees;   |



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| <b>Side Letters</b>                      | has the meaning ascribed to it in Sub-Section 19;  |
| <b>SPV</b>                               | means a special purpose vehicle;   |
| <b>SSA</b>                               | has the meaning ascribed to it in Sub-Section 3.1;   |
| <b>Sub-fund Zero Fee Net Asset Value</b> | has the meaning ascribed to it in Sub-Section 14.2;  |
| <b>Subscription Agreement</b>            | the commitment agreement that Investors will be required to execute, which contains payment details and other material terms of an investment in the Sub-fund;   |
| <b>Subscription Amount</b>               | in relation to each Investor, the amount of capital invested in the Sub-fund by such Investor and, in relation to the Investors as a whole, the total amount of capital invested in the Sub-fund by all Investors; |
| <b>Sub-Section</b>                       | a sub-section of this Supplement;  |
| <b>Sub-Sub-Section</b>                   | a sub-sub-section of this Supplement;  |
| <b>Synthetic Counterparty</b>            | has the meaning ascribed to it in Sub-Sub-Section 3.1.1;   |
| <b>Target Assets</b>                     | has the meaning ascribed to it in Sub-Sub-Section 4.1;   |
| <b>Tradable Assets</b>                   | has the meaning ascribed to it in Sub-Sub-Section 4.2.2;   |
| <b>Transfer</b>                          | has the meaning ascribed to it in Section 9;   |
| <b>UCI</b>                               | any underlying undertaking for collective investment with exposure to SSA, whether or not the undertaking for collective investment qualifies as an alternative investment fund for the purposes of the AIFMD;     |

|                                       |   |
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| <b>Unadjusted Management Fee</b>      | has the meaning ascribed to it in Sub-Section 14.1;       |
| <b>Unitholder</b>                     | a holder of Units;  |
| <b>US Risk Retention Requirements</b> | has the meaning ascribed to it in Sub-Sub-Section 20.2.6; |
| <b>Valuation Point</b>                | the last Business Day in each calendar month;             |
| <b>Warehoused Asset</b>               | has the meaning ascribed to it in Sub-Sub-Section 3.1.5;  |
| <b>Warehoused SSA</b>                 | has the meaning ascribed to it in Sub-Sub-Section 3.1.5.  |

## 2.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural and conversely.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a Section, Sub-Section, or Sub-Sub-Section is a reference to a provision of this Supplement.
- (f) A reference to an agreement or document (including, without limitation, a reference to this Supplement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Supplement, the Issuing Document and/or the Management Regulations or that other agreement or document.
- (g) A reference to a party to this Supplement or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).

- (h) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (j) A reference to a statutory definition includes the definition as amended or replaced from time to time.
- (k) A reference to conduct includes, without limitation, an omission, statement and undertaking, whether or not in writing.
- (l) A reference to the Depositary, Administrative Agent, the AIFM or the Management Company includes a reference to their respective officers, employees and agents or any of them.
- (m) A reference to the Management Company or the AIFM being the registered owner, holder or transferee of any asset or as being the party to whom or by whom any payments (including but not being limited to payments of taxes) are to be made, is, where appropriate, a reference to any agent or delegate of the Management Company or the AIFM.
- (n) A reference to a quarter is a reference to a calendar quarter commencing on 1 January, 1 April, 1 July or 1 October and ending on the next following 31 March, 30 June, 30 September or 31 December, respectively.

### 3 OVERVIEW OF SECURITIZED AND STRUCTURED ASSETS

The Sub-fund uses the term securitized and structured assets or **SSAs** to refer broadly to Balance Sheet Securitizations, collateralised debt obligations (**CDOs**), CLOs, Warehoused Assets, MBSs, ABSs, ILSs, RRTs, collateralised debt obligations of asset-backed securities (such collateralised debt obligations could be Balance Sheet Securitizations if the collateral backing the collateral debt obligations is constituted by assets originated from the balance sheet of a Financial Institution or Non-Financial Institution and continue or not to be held by such Financial Institution or Non-Financial Institution after the set-up of the respective transaction securitization) and other similar obligations.

#### 3.1 SSAs other than ILSs and RRTs

As a general matter, securitized and structured assets (**SSAs**) other than ILSs and RRTs are securities that entitle their holders to receive payments that depend on the cash flow from an underlying portfolio of collateral, which may include a combination of other asset-backed securities, debt securities and loans, and credit default swaps or other synthetic or similar instruments, the reference obligations of which may be assets such as asset-backed

securities, corporate and sovereign debt securities or loans. SSAs other than ILSs and RRTs, in common with other types of asset-backed securities, are issued in multiple tranches bearing different rankings as to entitlement to payment of interest and principal proceeds received generated by the collateral.

SSA performance is directly linked to three principal factors: the underlying assets, the SSA's structural features and the performance of the SSA's asset manager (if the SSA is managed).

In analysing investment in a SSA, in-depth attention to the collateral assets underlying the SSA is essential, since, depending on the collateral type, different default scenarios and recovery rates, recovery lag periods and prepayment profiles may be encountered, among other investment considerations. With SSAs other than ILSs and RRTs, covenants and priority of payment waterfalls and their impact on a transaction's cash flows can also have a significant impact on performance.

Generally, SSA structures other than ILSs and RRTs include interest and principal waterfalls that dictate the distribution of all net proceeds collected, measured on each date on which interest payments on the debt are due. The priority of distributions typically changes as the transaction seasons and specific periods of the transaction life succeed: i.e. ramp-up period, reinvestment period and amortisation period.

Most SSA waterfalls contain structural mechanisms triggered by coverage ratios with respect to the underlying investment portfolio. The coverage ratios for a SSA may include, for example, (i) ratios of (a) the principal amount of one or more specified tranches of rated liabilities issued by the SSA to (b) the aggregate face amount of the underlying investment portfolio owned by the SSA (the face amount of certain investments being a haircut in certain circumstances, for example, when the total face amount of investments having ratings below specified rating thresholds are greater than a specified percentage of the total face amount of the underlying investment portfolio) (such ratios, being referred to as "overcollateralization ratios") and (ii) ratios of (a) the interest proceeds received or scheduled to be received on the underlying investment portfolio owned by the SSA in a specified period to (b) the sum of (1) the interest payable by the SSA vehicle in that period on one or more specified tranches of rated liabilities issued by the SSA vehicle and (2) other specified payments required to be made by the SSA vehicle in that period (such ratios, being referred to as "interest coverage ratios"). These overcollateralization and interest coverage ratios make SSA structures complex and SSA securities difficult to value because the interest and principal waterfalls may modify and payments to subordinated tranches may be diverted to more senior tranches if these ratios go below certain levels specified for each tranche.

SSAs include "market value structures" and, more commonly, cash flow structures. Most cash flow structures use interest proceeds generated by the assets to pay transaction expenses such as portfolio management and administrative fees and net hedging costs (if applicable), as well as the interest payments due on the SSA debt. Principal proceeds are typically applied to cover any shortfalls in the interest waterfall and then to either reinvest in additional collateral assets during the reinvestment period or to redeem notes in order of priority during the amortisation period.

Market value structures contain market value triggers (these tests being calculated based on the market value of the investments in the underlying portfolio). If these tests are breached, the market value SSA may enter into a specific mode triggering the forced sale of the underlying investment portfolio or a change in its interest and principal waterfalls.

SSAs (whether market value SSAs or cash flow SSAs) contain events of default that are specific to each SSA and are defined in its transaction documents. The consequences of an event of default are also specific to each SSA. For example, an event of default (if not resolved) may require the termination of a SSA's reinvestment period and the mandatory repayment of its liabilities.

Following certain events of default specified in a SSA's transaction documents, a majority of the investors holding the most senior tranche of the SSA (the "controlling class") or a Monoline insuring the most senior tranche of the SSA may decide to require mandatory liquidation of the SSA and the forced sale of the SSA's underlying investment portfolio. As a result, the sale of these assets may occur at a price significantly below the anticipated market values for such assets and may result in losses (which may be substantial) to investors in the SSA.

SSAs may be "synthetic", i.e. the credit risk of the Reference Portfolio is synthetically transferred to the SSAs' investors without transfer of the Reference Portfolio into the book of the SSA structure. Synthetic SSAs are purchased or sold by the Sub-fund from a synthetic asset counterparty through products such as credit default swaps, total return swaps, credit linked notes, structured notes, trust certificates or other derivative instruments. Synthetic assets provide for payments closely correlated to the default, recovery upon default and other expected loss characteristics of the related SSA debt or equity (other than the risk of default of the related synthetic asset counterparty), and may provide for payments based on a maturity shorter than, or a principal amount, interest rate, currency, premium, payment terms or other non-credit terms different from, that of the related SSA's Reference Portfolio.

In synthetic SSAs, the collateral securing the SPV's exposure to Reference Entities is generally held by the Synthetic Counterparty. The bankruptcy of such Synthetic Counterparty would have a material adverse effect on the SSA (and thus on the Sub-fund) and could even result in the total loss of the amount invested by the Sub-fund in such SSA.

Because the more senior debt securities issued by a SSA structure are typically rated, ratings agency criteria play an important role in determining SSA characteristics.

SSAs can be managed or unmanaged (static). Decisions of the relevant collateral manager of the SSA will affect the performance of a managed SSA. Managed SSAs, like all managed investment vehicles, are subject to collateral manager risk, which can be measured by the capacity of such collateral manager to select the right investments, effectively anticipate and act on market movements and/or otherwise execute an investment strategy consistent with the interests of investors in the SSA or a particular class of such investors. The degree of discretion that a collateral manager has with regard to a SSA portfolio may vary widely from one SSA to another SSA.

### 3.1.1 Balance Sheet Securitizations

A Financial Institution or a Non-Financial Institution (the **Originating Institution**) wishing (a) to reduce its risk weighted assets and potentially free regulatory capital and/or (b) to simply reduce exposures to certain of its core corporate or financial clients with a view to developing new banking activities for such clients and thus free economic capital can transfer synthetically a portion of the risk attached to such assets, while generally continuing to hold the assets on its balance sheet and perform the servicing of such assets without impacting on its commercial relationship with its clients. A SPV, usually set up at the initiative of the Originating Institution and dedicated to the contemplated securitization takes exposure to the credit risk of a portfolio identified by the Originating Institution by selling credit protection through a financial guarantee or a credit default swap to the Originating Institution. The SPV issues notes to the Sub-fund, which notes provide the returns paid by the Originating Institution against the credit protection bought from the SPV. The note proceeds and any potential up-front premium paid by the Originating Institution for the protection provided by the SPV are deposited to the Originating Institution (into an SPV's cash account or invested into securities, in each case generally held by the Originating Institution) to collateralise the SPV's obligations to the Originating Institution under the credit protection transaction on the reference portfolio of loans, derivatives and other debt instruments.

**Balance Sheet Securitizations** are SSAs generally issued by SPVs referencing a portfolio (each such portfolio a **Reference Portfolio**) of assets held by Originating Institutions in their books and securitised via such SPVs created for the purpose of such securitization or through credit linked notes issued directly by the Originating Institution detaining the Reference Portfolio in its books (each such issuer an **Balance Sheet Securitization Issuer**). Each such asset comprised within the Reference Portfolio is referred to as a **Reference Obligation** and each obligor under a Reference Obligation is referred to as a **Reference Entity**. Reference Obligations may consist in, but are not limited to, corporate loans, financial derivatives, project finance, infrastructure or real estate related financial instruments, small and medium enterprises loans and structured credit securities. While the AIFM currently believes most of the Originating Institutions will continue to hold the securitised assets in their books, Balance Sheet Securitizations can be made with the assets being physically transferred to the SPV too.

Balance Sheet Securitization notes are tranching portfolio credit linked SSAs. The credit linkage of these SSAs is created through an SPV entering into a tranching portfolio credit default swap (a **Credit Swap Transaction**) or a tranching portfolio financial guarantee (a **Financial Guarantee** and together with the Credit Swap Transaction, the **Credit Transaction**) with an Originating Institution in its capacity as swap counterparty (in such capacity a **Synthetic Counterparty**) which references a Reference Portfolio or Reference Obligations held by Originating Institutions in their balance sheet.

The return on an investment in the SSA will depend to a significant extent on the performance of the Credit Transaction.

The Sub-fund may be the sole Investor in a Balance Sheet Securitization (bilateral balance sheet trades).

Since these SSA notes are securities which are credit-linked to the Reference Entities, the amount of principal and interest payable to the SPVs is dependent on a number of credit-related factors, including:

- (a) whether a credit event in respect of which the conditions to settlement under the relevant Credit Transaction have been satisfied has occurred under the terms of the relevant Credit Transaction in respect of any Reference Entity;
- (b) how many Reference Entities have been subject to the occurrence of any such credit events; and
- (c) the amount of any settlement reduction percentage following the occurrence of a credit event and the satisfaction of the conditions to settlement.

If a credit event in respect of which the conditions to settlement are satisfied occurs in respect of one or more Reference Entities, and if a settlement reduction percentage is determined under the terms of the Credit Transaction in respect of any or each of such credit events, then the outstanding principal amount of the SSA Notes will be reduced by amounts equal to the product of the initial notional amount specified in respect of the relevant Credit Transaction and such settlement reduction percentage.

The AIFM expects (but there is no requirement) that the Sub-fund will generally invest in junior tranches, generally not rated, issued by the Balance Sheet Securitization Issuers. Such tranches are fully subordinated in terms of priority of payments to the related SSA senior tranches while they are exposed to losses occurring in the Reference Portfolio before the SSA senior tranches.

The Sub-fund may also enter into Credit Transactions (including, for the avoidance of doubt, Financial Guarantees) directly with the Balance Sheet Securitization Issuers (each such transaction a **Direct Balance Sheet Securitization**); for the avoidance of doubt, no SPV is used in a Direct Balance Sheet Securitizations and the Sub-fund will enter into a Financial Guarantee or other Credit Transaction directly with such Originating Institution.

In general, Balance Sheet Securitizations do not provide for waterfalls mechanisms conditioned by coverage ratios as typical cash flow SSAs described above. Moreover, in terms of management style of the Reference Portfolio, the composition of the Reference Portfolios of the Balance Sheet Securitizations to be invested in by the Sub-fund will be performed by the Originating Institutions and may sometimes be subject to the AIFM's prior approval on each Reference Obligation newly included in the Reference Portfolio.

Underlying Reference Obligations of Balance Sheet Securitizations will be assets or financial instruments of the Originating Institution such as, without limitation: corporate senior unsecured loans, derivatives, finance project loans, infrastructure related financial instruments, loans and participations, aircraft and trade finance loans, emerging market corporate loans, small and medium enterprises loans, commercial or real estate loans.

The Sub-fund may also invest in Balance Sheet Securitizations where an Originating Institution transfers physically the assets to be securitized (such type of Balance Sheet Securitization, a **Cash Balance Sheet Securitization**); in a Cash Balance Sheet Securitization, the Originating Institution will not necessarily continue to hold the assets on its balance sheet (or will hold only a portion of such assets) and may (but will not be obliged to) continue to perform the servicing of such assets without impacting on its commercial relationship with its clients. An SPV will usually acquire the portfolio of assets to be securitized from the Originating Institution. The SPV issues notes or other type of instruments to the Sub-fund, which notes provide the returns paid on the portfolio of assets (after deduction of all costs and expenses). The note proceeds are used to purchase the portfolio of assets and to pay costs and expenses incurred by the SPV.

### 3.1.2 **Asset backed securities**

An asset backed security (**ABS**) is a security whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets which are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

Often an SPV is created to handle the securitization of ABSs. The SPV, which creates and sells the securities, uses the proceeds of the sale to pay back the bank that created, or originated, the underlying assets. The SPV is responsible for "bundling" the underlying assets into a specified pool that will fit the risk preferences and other needs of investors who might want to buy the securities, for managing credit risk – often by transferring it to an insurance company after paying a premium – and for distributing payments from the securities. As long as the credit risk of the underlying assets is transferred to another institution, the originating bank removes the value of the underlying assets from its balance sheet and receives cash in return as the asset backed securities are sold, a transaction which can improve its credit rating and reduce the amount of capital that it needs.

### 3.1.3 **Collateralized loan obligations**

A collateralized loan obligation (**CLO**) is a security with respect to which the related underlying portfolio of assets consists generally of commercial and/or industrial loans (including "middle market" loans) to sub-Investment Grade companies. CLOs are usually issued by SPVs.

Generally, CLO structures include interest and principal priority of payments that dictate the distribution of all net proceeds collected, measured on each date on which interest payments on the debt are due. The priority of payments typically changes as the transaction seasons



and specific periods of the transaction life succeed: ramp-up period, reinvestment period and amortisation period.

CLOs will typically use interest proceeds generated by the assets to pay transaction expenses such as portfolio management and administrative fees and net hedging costs (if applicable), as well as the interest payments due on the CLO debt. Principal proceeds are typically applied to cover any shortfalls in the interest priority of payments and then to either reinvest in additional assets during the reinvestment period or to redeem notes in order of priority during the amortisation period.

#### 3.1.4 **Mortgage backed securities**

A mortgage backed security (**MBS**) is a security with respect to which the related underlying portfolio of mortgages consists generally of commercial and/or residential mortgages and/or credit default swaps and total return swaps that reference such assets. MBSs are usually issued by SPVs.

#### 3.1.5 **Warehouse financing**

**Warehoused Assets** are financial instruments (including, without limitation, loans, notes, profit participating notes, preferred shares, common shares, etc) issued by an SPV formed to finance the acquisition of a portfolio of collateral obligations (which may consist of loans, bonds, ABSs, mortgages or any other assets) prior to the expected issuance and closing of an arbitrage securitization transaction (such as CLOs, CDOs, ABSs or other type of SSAs (each such CLO, CDO, ABS or other type of SSA, a **Warehoused SSA**)). For the avoidance of doubt, there is no guarantee that the issuance or closing of the Warehoused SSA will occur. The liabilities of the SPV are usually tranching and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction.

#### 3.1.6 **Collateralised debt obligations of asset backed securities**

A **CDO of ABSs** is any SSA security with respect to which the related underlying portfolio of assets (or, in the case of a synthetic CDO obligation, the related underlying portfolio of reference obligations) consists generally of ABSs (such SSA being already leveraged) including, without limitation, residential mortgage backed securities, commercial mortgage backed securities, other ABSs and SSAs and/or credit default swaps and total return swaps that reference such assets.

### 3.2 **Insurance linked securities**

An insurance linked security (ILS) is an asset (such as, without limitation, bonds, notes, derivatives financial instruments, shares, loans, units, etc.) where the coupon and/or redemption is generally dependent on the occurrence of an insured event pertaining to any risk class and/or any derivative instrument(s) that reference such assets. ILSs are usually issued by SPVs.

The event risk refers to the occurrence of an insured event. Examples of these types of risk are US hurricanes, earthquakes in California and the Midwest of the US, in Japan, New

Zealand and Europe; windstorms in Europe, the north-east and south-east coasts of the US, in Hawaii, Puerto Rico and Japan; extreme temperatures (heat/cold); aviation catastrophes; shipping catastrophes; explosion and fire catastrophes; mortality risks. This list is not exhaustive.

### **3.3 Risk retention transactions**

Typical risk retention transactions (RRTs) are UCIs or other investment vehicles (such as, without limitation, SPVs) which, directly or through the intermediation of another structure, manage CLOs and act as retention providers in respect of such CLOs (the Initiated CLOs) in accordance with EU Risk Retention and Due Diligence Requirements or US Risk Retention Requirements as applicable.

Consequently, RRT portfolios are generally comprised of equity tranches of the Initiated CLOs and for a residual part, collateral debt obligations (for the avoidance of doubt, the exposure of the RRTs to such assets may be indirect if the relevant RRTs have invested all or substantially all of their assets in underlying originators which act as the retention providers of the relevant Initiated CLOs).

The structural features and investment strategies of RRTs in which the Sub-fund may invest can differ from the ones presented above.

## **4 INVESTMENT OBJECTIVE, INVESTMENT STRATEGY, INVESTMENT POLICY AND RESTRICTIONS, LEVERAGE AND HEDGING**

### **4.1 Investment objective**

The Sub-fund's investment objective is to seek to achieve capital appreciation from a portfolio of (i) SSAs such as, without limitation, ABSs, MBSs, CDOs, CLOs, ILSSs, Warehoused Assets, RRTs, CDOs of ABSs or any similar securities and (ii) UCIs (iii) Loans and/or (iv) other fixed income or credit assets (the **Fixed Income Assets** and together with the SSAs and the Loans, the **Target Assets**), each denominated in Eligible Currencies.

The AIFM seeks to achieve the investment objective indicated above over the life of the Sub-fund through the coupon payments received from the Target Assets and the price appreciation of such Target Assets.

There can be no assurance that the investment objective of the Sub-fund will be achieved.

### **4.2 Investment strategy**

#### **4.2.1 Overview**

The Investments targeted by the Sub-fund are Target Assets. The Target Assets comprised within the Sub-fund's portfolio may be rated or unrated.

The investment philosophy of the AIFM rests on the following pillars:

- selection of Target Assets on the basis of fundamental assessment of individual features; and
- in respect (if applicable) of Loans, selection on the basis of fundamental credit analysis assessment of individual obligors;
- management of the portfolio leading to strategic allocation and relative value trades.

The selection and allocation of Target Assets is not exclusively and mechanically based on any publicly available credit rating (if any) but also on an internal credit or market risk analysis.

The investments underlying this Sub-fund do not take into account the EU criteria for environmentally sustainable economic activities.

#### 4.2.2 Implementing the Investment Strategy

The AIFM will leverage on its long established relationships and networks with big participants in banking, insurance and capital markets and on its analysis capacity to source Investments for the Sub-fund.

The Sub-fund may borrow up to ten per cent (10%) of its net assets, amongst others through a Liquidity Facility Agreement in order to meet its obligations under its hedging strategy.

In addition, the Sub-fund may extensively use borrowing as part of its investment strategy to finance the purchase of investments, within the leverage limit as set out in Sub-Section 4.4. (i.e. net leverage will not exceed five hundred per cent (500%) and gross leverage will not exceed 1000 per cent (1000%)).

The Sub-fund may invest in direct lines or through synthetic financial instruments in the form of derivatives.

The Sub-fund may also invest in UCIs in any legal form and/or jurisdictions whatsoever. For the avoidance of doubt, it will not be required that such relevant UCI qualifies as an alternative investment fund within the meaning of the AIFMD.

Due to its investment in Loans, the Sub-fund may also receive warrants relating to or linked to Loans in which the Sub-fund has invested and Exchange Debts Securities that are received pursuant to an Exchange.

To achieve its investment objective, the Sub-fund may invest in illiquid assets that may comprise all or part of the portfolio and will impair liquidity and dynamic allocation during the life of these assets.

Each of the Sub-fund's assets will be allocated to one of three categories of asset (each a **Category**, together, the **Categories**): a Tradable Asset, a Deferred Redemption Asset or a

Buy and Hold Asset. The AIFM will determine in its absolute discretion the category into which each asset falls and the AIFM's determination may change at any time and from time to time.

A **Tradable Asset** is an asset which, in the AIFM's opinion, is transferable and which the AIFM is allowed to transfer and has determined (acting in good faith and in a commercially reasonable manner) at the time of the relevant investment that a counterparty could potentially be willing or able to purchase such investment when the AIFM will need to dispose of such investment. There may be a gap between the valuation and the actual selling price since the number of active bidders might be limited.

A **Deferred Redemption Asset** is an asset which, in the AIFM's opinion, needs to be disposed of on top of available Tradable Assets to settle any relevant redemption request, i.e. the redemption amount in relation to those Deferred Redemption Assets will be paid as soon as reasonably possible following receipt by the Sub-fund of the monies relating to the disposal and/or redemption of the relevant Deferred Redemption Asset and, subject to Sub-Section 10.1(e) below, shall not exceed one year following the relevant Valuation Point.

A **Buy and Hold Asset** is an asset which, in the AIFM's opinion, is illiquid and/or non-transferable or any other asset that the AIFM may, in its absolute discretion, consider as illiquid asset having regard, inter alia, to all the characteristics (such as diversification rules or cash provisions) of the Portfolio.

In addition, the Sub-fund may utilise various types of hedging instruments to minimise financial risks. Furthermore, the AIFM will generally seek to match to the extent possible expected cash flows to be received on the Investments with the cash flows to be distributed in different currencies (if applicable) to the different classes of Units to mitigate currency risk. See Sub-Section 4.6 for further detail.

The Sub-fund should have the flexibility to extract positive returns from the management of the duration through exposure to interest rate by entering into derivative contracts (adding some positive duration to floating assets portfolio if and when considered appropriate by the AIFM).

#### 4.2.3 **Reinvestment**

The AIFM may reinvest the proceeds from the disposal of certain Investments and the proceeds received by the Sub-fund in respect of its portfolio of Investments in substitute Investments.

### 4.3 **Investment policy and restrictions**

#### 4.3.1 **Eligible Assets and techniques**

The Sub-fund may invest in the following assets and/or use the following techniques (as applicable):

- 1) SSAs (which include, for the avoidance of doubt, Balance Sheet Securitizations, CLOs, CDOs, ABSs, MBSs, ILSs, Warehoused Assets, CDOs of ABSs, RRTs or any similar securities, issued in the form of notes, bonds, shares, units, loans and any other form of financial instruments or agreements issued by or entered into with (as applicable) SPVs, or issuers (including, for the avoidance of doubt, credit transactions entered into directly between the Sub-fund and the issuers);
- 2) UCIs of all categories and jurisdictions;
- 3) Loans;
- 4) Fixed Income Assets;
- 5) Exchange Debts Securities, stock, equity, warrants and embedded derivatives;
- 6) indexes baskets (including in tranching format) or credit default swaps on single name exposures (including but not limited to Itraxx, CDX, indexes of financial institutions, stocks or bonds, loans, etc.); options, total return swaps or other forward financial instruments featuring or not the characteristics of credit. For, the avoidance of doubt, those instruments may be collateralized (in whole or in part) or not;
- 7) forwards, futures, swaps, swaptions, “over-the-counter” or traded on exchange options, or any other instrument with interest rate exposure;
- 8) foreign exchange, interest rate, equity and credit instruments;
- 9) repurchase or securities lending agreements;
- 10) cash and money market instruments (intended to be investments pending investment in Target Assets or distributions to Unitholders); and financing arrangements (including, without limitation, any kind of lending agreements, loan facility agreements, etc.), repurchase agreements. For the avoidance of doubt, those assets and/or techniques may be collateralized (in whole or in part) or not.

#### 4.3.2 **Investment Guidelines**

The Sub-fund may invest in the Target Assets up to following percentage limits of the Sub-fund's NAV (the **Investment Guidelines**):

- (i) Balance Sheet Securitizations: up to seventy per cent (70%) of the Sub-fund's NAV;
- (ii) CLOs / RRTs / Warehoused Assets: up to fifty per cent (50%) of the Sub-fund's NAV;
- (iii) ILS: up to fifty per cent (50%) of the Sub-fund's NAV;

- (iv) Asset Backed Securities / MBS / CDO of ABSs: up to seventy per cent (70%) of the Sub-fund's NAV;
- (v) Fixed Income Assets (excluding SSA): up to forty per cent (40%) of the Sub-fund's NAV; and
- (vi) Loans: up to fifteen per cent (15%) of the Sub-fund's NAV.

The limits above will be monitored based on the monthly NAV of the Sub-fund.

The above Investment Guidelines shall apply, with respect to any new Investment, at the time any such new Investment is decided. Compliance by the Sub-fund with the Investment Guidelines mentioned above will be monitored by the AIFM at the time of the NAV calculation.

#### **4.3.3 Eligible Currency**

Investments may be denominated in any Eligible Currency.

#### **4.3.4 Diversification Guidelines**

The Sub-fund's Investments will comply with the following Diversification Guidelines.

- (i) The Sub-fund's investment in a single Target Asset may not exceed in aggregate thirty per cent (30%) of the Sub-fund's NAV.
- (ii) The Sub-fund's exposure net of the value of any collateral which has been deposited by the relevant counterparty for the benefit of the Sub-fund and of the notional amount of any short exposure of the Sub-fund on such single counterparty, in connection with over-the-counter transactions, may not exceed in aggregate thirty per cent (30%) of the Sub-fund's NAV.
- (iii) The Sub-fund may temporarily (i.e. pending investment in the Target Assets) hold cash and money market instruments representing up to one hundred per cent (100%) of the Sub-fund's NAV. Such investments will be held or deposited with the Depositary.
- (iv) The Sub-fund may invest up to thirty per cent (30%) of its NAV in one or several UCIs.

The limits above will be monitored based on the monthly NAV of the Sub-fund.

The above Diversification Guidelines shall apply, with respect to any new Investment, at the time any such new Investment is decided. Compliance by the Sub-fund with the Diversification Guidelines mentioned above will be monitored by the AIFM at the time of the NAV calculation.

#### **4.4 Leverage strategy**

The Sub-fund may leverage its Investments for the purpose of obtaining funding through such leverage, including through the use of financing arrangements (including without limitation,

any kind of lending or borrowing agreements, loans facility agreements, etc), repurchase transactions and derivatives as the AIFM considers appropriate in its absolute discretion.

Leverage may also be embedded in futures, options, swaps, swaptions and other derivative instruments that the AIFM may enter into on behalf of the Sub-fund for investment and/or hedging purposes.

In addition, many of the Investments (including but not limited to mezzanine and first loss tranches of Balance-Sheet Securitizations and other SSAs such as Warehoused Assets) involve very significant leverage. For example, leverage is normally embedded in mezzanine and first-loss tranches of SPVs referencing Financial Institutions' balance sheet assets and in credit linked notes. If the Sub-fund retains either the most or one of the most subordinated tranches of an SPV or a tranching Referenced Portfolio, it will hold the most leveraged investment in the underlying portfolio.

The Sub-fund may also receive embedded derivatives due to its investment in Loans (e.g. warrants received pursuant to an Exchange).

The Sub-fund may also actively manage its currency exposure through the use of forwards exchange, swap or option transactions.

Furthermore, the Sub-fund may enter into repurchase or securities lending agreements. In addition, in order to ensure that the Sub-fund has funds available to meet its obligations on any day under the hedging strategies that it may use (such as, without limitation, payments of upfront premiums and margin calls related to such hedging strategies, etc.), the Sub-fund may enter into contractual settlement services agreements or liquidity facility agreements (each such agreement a **Liquidity Facility Agreement**) with liquidity facility providers (each a **Liquidity Provider**) pursuant to which the Liquidity Provider will agree to make funds available to the Sub-fund (the **Liquidity Draw-Downs**).

#### *Further Restrictions*

Without prejudice of the foregoing, the Leverage is controlled and shall not exceed (as a ratio of exposure of the Sub-fund and its NAV) five hundred per cent (500%) when using the commitment method and one thousand per cent (1000%) when using the gross method.

The Sub-fund's exposure is calculated by the AIFM, as the case may be, in accordance with two cumulative methods: the "commitment method", as set-out by article 8 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012 and the "gross method" as set-out by article 7 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012. The gross method gives the overall exposure of the Sub-fund whereas the commitment method gives credit insight for the hedging and netting techniques used by the AIFM.

## **4.5 Efficient Portfolio Management and Techniques**

### **4.5.1 General**

The Sub-fund may use securities financing transactions (SFT) such as securities lending, securities borrowing, repurchase and reverse transactions and financial derivatives

instruments (including without limitation listed and OTC derivatives such as total return swaps) in accordance with the conditions set out in this Section 4.5.

The Sub-fund shall enter into any SFT or financial derivatives instruments (including total return swaps) with counterparties subject to prudential supervision rules considered by the Regulatory Authority as equivalent to those prescribed by EU law and selected by the AIFM in accordance with its order execution policy available on its internet website. In this context, the AIFM will enter into such transactions with credit institutions established in an OECD Member State having a long term debt rated at least BBB- according to the ratings scale of Standard & Poor's (or deemed equivalent by the AIFM).

All revenues arising from efficient portfolio management techniques, net of direct or indirect operational costs and fees, will be returned to the Sub-fund.

The Sub-fund may incur costs and fees in connection with efficient portfolio management techniques. In particular, the Sub-fund may pay fees to agents and other intermediaries, which may be affiliated with the Depositary, the AIFM or the Management Company to the extent permitted under applicable laws and regulations, in consideration for the functions and risks they assume. The amount of these fees may be fixed or variable. Information on direct or indirect operational costs and fees incurred by the Sub-fund in this respect, as well as the identity of the entities to which such costs and fees are paid and any affiliation they may have with the Depositary, the AIFM or the Management Company, if applicable, will be available in the annual report.

The Sub-fund may incur fixed or variable brokerage fees and transaction costs upon entering into such techniques and instruments. Such transactions costs will be described in the annual report of the Sub-fund.

Under no circumstances, shall these operations cause the Sub-fund to diverge from its investment objective and policy.

#### **4.5.2 Securities Lending and borrowing – Repurchase agreement transactions**

The Sub-fund may enter into securities lending or securities borrowing transactions governed by an agreement whereby a party transfers securities subject to a commitment that the borrower will return equivalent securities on a future date or when requested to do so by the transferor, that transaction being considered as a securities lending for the counterparty transferring the securities and being considered as securities borrowing for the counterparty to which they are transferred.

The AIFM expects that the borrowing and lending of securities will apply to 250% of the Net Asset Value; however the Sub-fund may enter into such transactions up to 500% of its Net Asset Value.

The Sub-fund may also enter into repurchase agreement transactions which consist of transactions governed by an agreement whereby a party sells securities or instruments to a counterparty, with a clause reserving the counterparty or the Sub-fund the right to repurchase or substitute securities or instruments of the same description, from respectively the Sub-



fund or the counterparty to a specified price on a future date specified, or to be specified, by the transferor.

The AIFM expects that the repurchase and reverse repurchase will apply to 250% of the Net Asset Value; however the Sub-fund may enter into such transactions up to 500% of its Net Asset Value.

The assets of the Sub-fund which might be subject to securities lending/borrowing and repurchase/reverse repurchase transactions are usually the Eligible Assets.

These transactions shall be conducted in accordance with the limit set out in the relevant circulars issued by the Regulatory Authority. They shall be carried out as part of the achievement of the management objective of the Sub-fund, the cash management and/or efficient portfolio management.

#### **4.5.3 Total Return Swap**

The Sub-fund may enter into total return swaps (which may be either funded or unfunded) which are swap agreements in which one party (total return payer) transfers the total economic performance of a reference asset to the other party (total return receiver). Total economic performance includes interest and fees, gain or losses from market movements and credit losses. These instruments will be carried out as part of the achievement of the management objective of the Sub- Fund, hedging, cash management and/or efficient portfolio management.

The AIFM expects that such transactions will apply to 250% of the Net Asset Value, however the Sub-fund may enter into such transactions up to 500% of its Net Asset Value.

The assets of the Sub-fund which might be subject to total return swaps are usually the Eligible Assets.

Details on the past utilization of these transactions are contained in the Sub-fund's annual report.

#### **4.5.4 Collateral Management**

##### Eligible Collateral

Collateral received by the Sub-fund may be used to reduce its counterparty risk exposure if it complies with the criteria listed in circulars issued by CSSF from time to time in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;
- it should be valued on a daily basis on a mark-to-market price basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably

conservative haircuts are in place. Margin calls will be implemented in accordance with the terms negotiated in the collateral arrangements;

- it should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;
- it should be sufficiently diversified in terms of country, markets and issuers and shall not entail on an aggregate basis an exposure to a given issuer for more than 20% of its Net Asset Value. By way of derogation, the Sub-fund may be fully collateralized in different Transferable Securities or Money Market Instruments issued or guaranteed by any of the Member States, one or more of their local authorities, a third party sovereign country such as Canada, Japan, Norway, Switzerland and the United States of America, or any public international body to which one or more Member State(s) belong(s) such as the European Investment Bank, provided that it receives such securities from at least six different issues and that securities from any single issue should not account for more than 30% of the Net Asset Value;
- the financial guarantees received by the Sub-fund will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider.
- it should be capable of being fully enforced by the AIFM for the account of the Sub-fund at any time without reference to or approval from the AIFM.

#### Haircut policy

In accordance with its internal policy relating to the management of the collateral, the AIFM shall determine:

- the required level of collateral; and
- the level of haircut applicable to the assets received as collateral, taking into account in particular the type of assets, the credit standing of the issuers, the maturity, the currency, the liquidity and the price volatility of the assets.

#### Eligible assets

As long as it complies with the conditions mentioned in the paragraph “Eligible collateral” above, the collateral may consist of (i) sovereign OECD bonds; and/or (ii) direct investment in bonds issued or guaranteed by first class issuers offering adequate liquidity or shares listed or dealt on a regulated market of a member state of the European Union or on a stock exchange of a member state of the OECD provided that they are included in a main index.

#### Reinvestment of collateral

The Sub-fund will be able to reinvest the financial guarantees received in accordance with the applicable regulation. The financial guarantees other than cash cannot be sold, reinvested or pledged. The counterparty will be able to reinvest the financial guarantees received from the Sub-fund in accordance with any regulation applicable to the counterparty.

#### 4.6 Hedging strategy

While the objective of the Sub-fund is to be exposed to, and not to hedge, credit risk, the AIFM believes that under certain market circumstances, obtaining protection against certain financial risks of the portfolio, including credit risk, could help in achieving the Investment Objective. The AIFM believes that it possesses both the quantitative capability and the in-depth understanding of SSAs to implement hedging proxies.

The AIFM has used hedging proxies (estimates generated through models in order to mimic as close as possible the relevant risks) on large and complex portfolios through a wide variety of market environments, especially in connection with interest rate or currency risks. The AIFM intends to enter into hedging transactions with respect to certain risks of the assets of the Sub-fund which may include credit, interest rate and currency risks.

Although the AIFM may attempt to hedge certain risks, as described above, the hedging proxies that the AIFM might put in place do not eliminate these risks. For the avoidance of doubt, the AIFM has no obligation to hedge any risks. In addition, payments by the Sub-fund under the hedges may significantly reduce the Sub-fund's Net Asset Value and/or the distributions by the Sub-fund to Unitholders. There can be no guarantee that instruments suitable for hedging will be available at the time or on the terms that the AIFM wishes to enter into them or will be able to be liquidated when the AIFM wishes to do so.

The AIFM is authorised to cause the Sub-fund to enter into currency hedge agreements and other hedge agreements (**Hedging Agreements**) with counterparties (each, a **Hedge Counterparty**) generally to hedge currency risk. SSAs which are not denominated in CHF will be hedged within the range of 0% to 100% of the value of that SSA, in the AIFM's absolute discretion. Hedging arrangements may also be used to hedge credit risk and interest rate risk to which the Sub-fund is exposed under any Investment. Hedging Agreements may be in the form of over-the-counter or traded on exchange options, swaps, swaptions, rolling fx forwards or credit default swaps (under which the AIFM may buy credit protection on single name exposures or indexes). Any hedging arrangement may be terminated or suspended at any time in the AIFM's absolute discretion if it considers such action to be necessary or in the best interests of the Sub-fund.

If a class of Units is denominated in another currency than the Base Currency, the AIFM is authorised to enter for the Sub-fund into currency hedge agreements to hedge currency risk for such class against the Base Currency. The hedging costs and expenses will be paid out of the Sub-fund's assets and will be solely borne by the relevant non-Base Currency class of Units.

#### 4.7 Application of the Risk Retention Requirements

Article 17 of the AIFMD introduced risk retention and due diligence requirements (the **Risk Retention Requirements**) in respect of alternative investment fund managers that are required to become authorised under the AIFMD. These Risk Retention Requirements came into force on 22 July 2013 in general but do not apply to securitisations issued before 1 January 2011 where new underlying exposures are not added or substituted after 31 December 2014.

The Sub-fund will be subject to the Risk Retention Requirements. As a consequence, the originator, sponsor (including and if applicable, the relevant collateral managers) or original lender (if any) of the SSAs comprised within the Sub-fund's portfolio may retain a material net economic interest of at least five per cent (5%) in the relevant SSAs (if such SSAs fall within the scope of Article 17 of the AIFMD).

## **5 REPORTING AND UNITHOLDERS' INFORMATION**

### **5.1 Documents and information available to Unitholders**

At the relevant Release Day, the Management Company or the AIFM may prepare and distribute via its Administrative Agent to each Unitholder who was a Unitholder during the relevant calendar month, the following documents:

- (i) the unaudited Net Asset Value of the Sub-fund and the unaudited Net Asset Value per Unit of each Class as at the end of the period concerned;
- (ii) the number of Units held, as at the end of the period concerned; and
- (iii) the allocation of the Sub-fund's assets.

Upon request from an Investor, the Management Company or the AIFM will provide via its Administrative Agent the total number of Units outstanding as at the end of the period concerned.

The Management Company or AIFM may prepare and distribute to each Unitholder, who was a Unitholder at the end of such calendar quarter a letter generally discussing the results of the calendar quarter just ended and the market overview.

Within six (6) months after the end of each Financial Year, the Management Company will make available to Investors, upon request, the following documents:

- (i) audited financial statements of the Sub-fund for the relevant Financial Year, prepared in accordance with the principles laid down in section 18.2 of the Issuing Document, which include:
  - an audited balance sheet and income statement; and
  - a summary of NAV of the Sub-fund, NAV per Unit of each Class and the number of Units of each Class outstanding as at the end of the Financial Year; and
- (ii) status report of the Sub-fund's investment activities during such Financial Year, including summary descriptions of investments made and disposed of by the Sub-fund.

## **6 ELIGIBLE INVESTORS**

An investment in Class A Units or Class B Units of the Sub-fund is suitable only for sophisticated investors who do not require liquidity for their investment and are prepared to hold their Units for an extended period of time.

The Units cannot be subscribed by, sold or offered to, directly or indirectly, retail clients within the meaning of Directive 2014/65/UE of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments. As a result, no PRIIPS KID shall be issued.

## **7 TERM**

The Sub-fund shall be established for an unlimited duration from the Initial Closing with the possibility for the Management Company to terminate the Sub-fund at any earlier date in its absolute discretion.

## **8 SUBSCRIPTION AND ISSUE OF UNITS**

The Management Company may issue different Classes in the Sub-fund as appropriate in its sole and absolute discretion. These Classes will carry different rights and obligations as described in this Section.

The Management Company may issue each Unit Sub-Class in different Series, each Series corresponding to different fee schedule (in terms of Management Fees and Performance Fee) applicable to the relevant Investors. Series will be numbered from 1 to 100.

### **8.1 Classes and subscription process**

#### **8.1.1 Classes**

There will be two classes of Units in the Sub-fund being Class A Units and Class B Units.

There will be fourteen sub-classes of Units within the Class A Units and Class B Units:

- (i) Class A-1 CHF (Capitalisation) Units;
- (ii) Class A-2 EUR (Capitalisation) Units;
- (iii) Class A-3 EUR Hedged (Capitalisation) Units;
- (iv) Class A-4 GBP (Capitalisation) Units;
- (v) Class A-5 GBP Hedged (Capitalisation) Units;
- (vi) Class A-6 USD (Capitalisation) Units;
- (vii) Class A-7 USD Hedged (Capitalisation) Units;

- (viii) Class B-1 CHF (Distribution) Units;
- (ix) Class B-2 EUR (Distribution) Units;
- (x) Class B-3 EUR Hedged (Distribution) Units;
- (xi) Class B-4 GBP (Distribution) Units;
- (xii) Class B-5 GBP Hedged (Distribution) Units;
- (xiii) Class B-6 USD (Distribution) Units; and
- (xiv) Class B-7 USD Hedged (Distribution) Units.

Each Class A-1 CHF (Capitalisation) Unit and Class B-1 CHF (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand CHF (CHF 1,000.00).

Each Class A-2 EUR (Capitalisation) Unit, Class A-3 EUR Hedged (Capitalisation) Unit, Class B-2 EUR (Distribution) Unit and all Class B-3 EUR Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand EUR (EUR 1,000.00).

Each Class A-4 GBP (Capitalisation) Unit, Class A-5 GBP Hedged (Capitalisation) Unit, Class B-4 GBP (Distribution) Unit and all Class B-5 GBP Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand GBP (GBP 1,000.00).

Each Class A-6 USD (Capitalisation) Unit, Class A-7 USD Hedged (Capitalisation) Unit, Class B-6 USD (Distribution) Unit and all Class B-7 USD Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand USD (USD 1,000.00).

With respect to the issue of Units, fractions of Units rounded mathematically to the nearest three (3) decimal places will be issued, as the case may require.

The issue price of Units will be expressed up to two (2) decimal places.

The Management Company reserves the right to issue further classes of Units in its sole and absolute discretion (including, without limitation, classes of Units denominated in currencies other than the ones listed above).

The Management Company may issue each Sub-Class of Unit in different Series, each Series corresponding to different fee schedule (in terms of Management Fees and Performance Fees) applicable to the relevant Investors. Series will be numbered from 1 to 100. This Supplement will accordingly be updated.

Class A Units are “capitalisation” Units – Net proceeds will be reinvested for the benefit of the holders of the relevant Units.

Class B Units are “distribution” Units – Net proceeds may be distributed or not, in whole or in part, in the absolute discretion of the Management Company, to the holders of the Units from time to time. Investors should note that, due to the distribution of profits and proceeds on the “distribution” Units, the NAV per Unit of the “capitalisation” Units should, in principle, be higher.

#### **8.1.2 Subscription process**

Investors wishing to subscribe for Units in accordance with the procedure described under section 10 of the Issuing Document must deliver a complete Subscription Form to be received by the Administrative Agent during the month at the end of which the Valuation Point taken as the basis of the subscription into the Sub-fund will be made and by no later than 12:00 noon (Luxembourg time) on the day falling ten (10) Business Days before the relevant Valuation Point. The NAV taken as the basis of such subscription order will be released to Investors within thirty (30) Calendar Days following the relevant Valuation Point.

The Management Company may accept or reject any application to invest in the Sub-fund in its absolute discretion. The Management Company may require any subscriber to provide it with any information that it may consider necessary for the purpose of deciding whether or not such Person is eligible to invest in the Sub-fund.

Subscriptions may be accepted only if they are placed in respect of an amount to be subscribed; no subscription for a specific number of Units will be accepted.

#### **Issue Price after Initial Closing**

The Issue Price of each Class A Unit and each Class B Unit to be issued after the Initial Closing will correspond to the NAV per Unit as applicable as at the relevant Valuation Point in respect of which the application for subscription in the Sub-fund is received by the Administrative Agent. The NAV taken as the basis of the settlement of the subscription order will be the one determined on the Valuation Point falling on the last Business Day of the month during which the complete Subscription Agreement in respect of such order is received (such NAV being released to Unitholders within thirty (30) Calendar Days from the relevant Valuation Point). Such NAV is therefore not known when the order is placed (forward pricing) and payments are made.

#### **8.2 Settlement**

Settlement of payment in cleared funds for Units shall be made for receipt by the Administrative Agent no later than (2) Business Days before the relevant Valuation Point; all payments to be made in the relevant Unit class currency.

Where payment is not received in due time, the Administrative Agent, acting upon the direction of the Management Company, may cancel the subscription.

## 9 TRANSFER OF UNITS

An Investor may only sell, assign, exchange, pledge, encumber, hypothecate or otherwise transfer or dispose of all or any part of its interest in the Sub-fund (together a **Transfer**), after prior written approval of the Management Company.

The Management Company may, in particular but without limitation, not approve a Transfer if in the opinion of the Management Company: (i) such subsequent holding may result in a breach in law, governmental regulation or rules of authorities having jurisdiction over the Sub-fund, or (ii) as a result of such subsequent holding, the Sub-fund may become exposed to disadvantages of a tax, of legal or financial nature that it would not otherwise have incurred. A transferee must agree to be bound by the terms of the Fund Documents.

Any transferee must qualify as a Well-Informed Investor and give in writing the same representations and warranties to the Sub-fund as contained in the Subscription Agreement.

In order to facilitate such Transfer, the Management Company may, in its absolute discretion, and without prejudice of the rights of the existing Investors and in particular in compliance with the provisions of the Section below (*Redemption of Units*), issue new Units.

## 10 REDEMPTION OF UNITS

### 10.1 Redemption at Investors' option

#### *Notification of allocation of SSAs to the Categories*

As set out in Sub-Sub-Section 4.2.2, each SSA will be allocated to a Category as at each Valuation Point. On the Release Day following the relative Valuation Point, Unitholders will be notified by email of the Category to which each SSA has been allocated.

Each Category is separate and independent from each other Category.

#### *Redemption Notice and Applicable Redemption Prices*

- (a) Subject to the limitation set forth in paragraphs (b), (c) and (d) below, a number of Units are redeemable on a monthly basis at the option of the Investor. For the avoidance of doubt, any request to redeem Units which is expressed by reference to an amount or value shall be cancelled by the Management Company. An Investor wishing to redeem part or all of his Units shall specify the number of such Units to be redeemed in a Redemption Notice to be received by the Administrative Agent no later than 12:00pm (noon) (CET) on the day falling no less than twenty (20) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point. In relation to any Redemption Notice, (i) (x) the NAV taken as the basis of the settlement of the portion of the redemption order that can be satisfied through the disposal and/or redemption of Tradable Assets is the one determined on the relevant Valuation Point (such redemption price, the **Non-Deferred Redemption Price**) and as such, is not known when the order is placed; (y) the NAV taken as the basis of the settlement of the portion of the redemption order that needs to be satisfied through the



disposal and/or redemption of Deferred Redemption Assets are the ones determined on the Deferred Valuation Points (each such redemption price, an **Applicable Deferred Redemption Price**) and as such, are not known when the order is placed and (ii) the allocation of the Sub-fund's assets to any Category for the purpose of determining the redeemable Units (and related Non-Deferred Redemption Price in relation to Non-Deferred Redemptions) is the one notified to the redeeming Investor on the Release Day following the relevant Valuation Point (and as such, is not known when the order is placed).

- (b) Unitholders may request redemption of Units which Redemption Price can be settled through the disposal and/or redemption of SSAs which have been allocated to the Tradable Assets Category or to the Deferred Redemption Assets Category.
- (c) If, in relation to any Valuation Point, the value of the total number of Units to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than the portion of the Net Asset Value of the Sub-fund which is attributable to the Tradable Asset Category and to the Deferred Redemption Asset Category (the **Threshold**), then such requests for redemption in excess of the Threshold will be automatically cancelled.
- (d) Without limiting the generality of the foregoing, if, in relation to any Valuation Point, the value of the total number of Units to be redeemed pursuant to Redemption Notices submitted in accordance with paragraph (a) above relate to more than the portion of the Net Asset Value of the Sub-fund which is attributable to the Tradable Asset Category (the **Deferred Threshold**), then such requests for redemption in excess of the Deferred Threshold will be deferred (each such redemption a **Deferred Redemption**) and will be treated on the following Deferred Valuation Points (for the avoidance of doubt, the portion of the redemption request in excess of the Threshold will be automatically cancelled) during a period of a maximum of one (1) year following the relevant Valuation Point subject to paragraphs (e) and (f) below.
- (e) The Management Company reserves the right, in its sole and absolute discretion, to cancel all or part of a Deferred Redemption if such redemption is not in the interests of the Sub-fund and/or the relevant redeeming Unitholder (including, for the avoidance of doubt, if the value of the relevant Deferred Redemption Assets has dropped since the date of the relevant Redemption Notice).
- (f) The Management Company also reserves the right to extend the period of one (1) year referred to at the end of paragraph (d) above if prevailing market conditions and/or other circumstances which are outside of the control of the Management Company prevent and/or delay the disposal and/or redemption of the relevant Deferred Redemptions Assets.
- (g) Where the SSAs of the Sub-fund are exclusively in the Buy and Hold Assets Category, Unitholders may submit a redemption request, but any such request, if accepted in whole or part, would be satisfied in accordance with the following Sub-Section 10.3 and not by payment of cash.

#### *Payment of Redemption Price*

- (i) The payment of the portion of the Non-Deferred Redemption Price (which, for the avoidance of doubt, can be settled through the disposal and/or redemption of Tradable Assets) shall be made within thirty-seven (37) Calendar Days after the relevant Valuation Point.
- (ii) The payment of each Applicable Deferred Redemption Price (which, for the avoidance of doubt, can be settled through the disposal and/or redemption of Deferred Redemption Assets) shall be made on each Deferred Redemption Day. Depending on the structural features of the relative SSAs and/or prevailing market conditions: (i) receipt of the proceeds of the disposal or redemption of SSAs in the Deferred Redemption Assets Category may only occur several months after the Redemption Notice is lodged with the Administrative Agent and (ii) the value of the Deferred Redemption Assets as of the preceding Valuation Point will differ from the value at which such Deferred Redemption Assets will be disposed of or redeemed and such difference may be substantial and (iii) all or part of the Deferred Redemption can be cancelled by the Management Company (acting in its sole and absolute discretion) if such redemption is not in the interests of the Sub-fund and/or the relevant redeeming Unitholder (including, for the avoidance of doubt, if the value of the relevant Deferred Redemption Asset has dropped since the date of the relevant Redemption Notice).
- (iii) Payment of the Redemption Price will be made by wire transfer unless the Management Company has determined, in its sole and absolute discretion, to make an in-kind redemption pursuant to Sub-Section 10.3.

#### *Delay of redemption*

The Management Company can decide, in its sole and absolute discretion, to delay any redemption request for up to 36 months if the redemption of Units is not in the best interests of the Sub-fund taken as a whole.

### **10.2 Compulsory redemptions**

The Management Company may in its absolute discretion compulsorily redeem all or part of the Units held by any Unitholder:

- if such Unitholder has materially violated any provisions of the Fund Documents or Subscription Agreement binding upon it;
- in any other circumstances where the Management Company reasonably determines that such Unitholder's continued ownership would either be materially prejudicial to the Sub-fund or would result in the Sub-fund and/or the respective Unitholder being in non-compliance with laws, regulations and investment guidelines applicable to it; and/or
- for any other reason.

### **10.3 In-kind redemption**

The Management Company generally expects to distribute cash to the Investors in satisfaction of redemption requests, provided, however, that under certain circumstances (as determined by the Management Company in its absolute discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to the Sub-fund prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.

At the Unitholder's request, the Management Company may elect to pay redemption proceeds in-kind, having due regard to all applicable laws and regulations and to all Unitholders' interest, if such Investor represented in writing to the Sub-fund prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments. In such case of payment in kind, the independent auditor of the Fund shall deliver, if applicable, an audit report in accordance with applicable laws. Any costs incurred in connection with a redemption in kind of securities shall be borne by the relevant Unitholder.

## **11 CONVERSION OF UNITS**

If a Unitholder holds Class B Units denominated in one currency, such Unitholder may apply for the relevant Class B Units to be allotted to the corresponding Class A Units and convert his existing Class B Units into Class A Units. In any such conversion, a conversion fee may be charged by the Management Company in its absolute discretion for the benefit of the Sub-fund. Such conversion fee shall not exceed three per cent (3%) of the pro rata NAV of the Units to be converted.

If a Unitholder holds Class A Units denominated in one currency, such Unitholder may apply for the relevant Class A Units to be allotted to the corresponding Class B Units and convert his existing Class A Units into Class B Units. In any such conversion, a conversion fee may be charged by the Management Company in its absolute discretion for the benefit of the Sub-fund. Such conversion fee shall not exceed three per cent (3%) of the pro rata NAV of the Units to be converted.

The Management Company may decide, in its sole and absolute discretion, to allow additional conversions of Units and may, in its sole and absolute discretion, apply a conversion fee. Such conversion fee shall not exceed three per cent (3%) of the pro rata NAV of the Units sought to be converted.

A conversion of Units of one Class into another Class will be treated as a redemption of Units of the original Class and a simultaneous subscription of Units in the corresponding Class. A converting Investor may therefore realise a taxable gain or loss in connection with the conversion under the laws of the country of the Investor's citizenship, residence or domicile.

A duly completed conversion request form or other written notification acceptable to the Administrative Agent together with any other documentation that may be requested by the

Administrative Agent from time to time must be received by the Administrative Agent no later than 12:00pm (noon) (CET) on the day falling ten (10) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.

Units will not be converted in circumstances where the calculation of the Net Asset Value, is suspended by the AIFM.

## **12 REFERENCE CURRENCY**

The NAV per Unit of each Sub-Class of the Sub-fund shall be expressed in the reference currency of the relevant Sub-Class.

## **13 VALUATION AND NET ASSET VALUE CALCULATION**

The NAV per Unit of the Sub-fund shall be expressed in the Base Currency of the relevant class of Units. The valuation and calculation of the Net Asset Value per Unit will be effected as provided for in the Fund Documents.

### **SSAs Valuation (other than illiquid SSAs)**

The AIFM will determine for each SSA its indicative value (the **Indicative Value**). The AIFM will apply the valuation principle as defined within its valuation standards for such assets classes. For the purpose of determining the Indicative Value of a SSA, the AIFM intends to use indicative values provided by arranging banks of SSAs, investment banks or other counterparties, observed traded prices for SSA and other comparable SSAs.

The monthly reports provided to Unitholders will not disclose the Indicative Value of individual SSAs; only the Indicative Value of the aggregate of all SSAs comprised within the Sub-fund's portfolio will be disclosed in this monthly report.

### **Valuation of illiquid SSAs**

In order to obtain the Indicative Value of illiquid SSAs (which include, for the avoidance of doubt and without limitation, Balance Sheet Securitizations, Warehoused Assets, RRTs, etc), the AIFM will apply the valuation principles as defined within its valuation standards for such asset classes.

The monthly reports provided to Unitholders will not disclose the Indicative Value of individual SSAs; only the Indicative Value of the aggregate of all SSAs comprised within the Sub-fund's portfolio will be disclosed in this monthly report. The AIFM has no obligation to confirm or verify any Indicative Value provided by a placement agent, arranger or investment bank, nor does either of them make any representations as to the accuracy of such Indicative Value.

## **Calculation of Net Asset Value**

The Sub-fund has not appointed an external independent valuation agent who will be in charge of the valuation of all the assets of the Sub-fund. The AIFM assures that a proper and independent valuation of the assets of the Sub-fund is performed in accordance with article 17 of the AIFM Law.

There is no assurance that the determination of the Net Asset Value of the Sub-fund reflects the actual sale prices of the Sub-fund's Investments. If sales of Investments result in fewer proceeds than estimated, Unitholders will see the Net Asset Value of the Sub-fund reduced. These Investments are potentially illiquid. Hence there may not exist any current market valuation. The AIFM will attempt to have valuation supplied by a third party for each Investment on a monthly basis. Such valuations may be volatile, inconsistent and may vary a lot from one month end to another.

The valuations received by the Sub-fund from arranging banks or brokers may typically be estimates only, subject to revision through the end of each Investment annual audit. Revisions to the Sub-fund's gain and loss calculations will be an ongoing process and no appreciation or depreciation figure can be considered final until the Sub-fund's annual audit is completed.

## **14 COSTS, FEES AND EXPENSES**

### **14.1 Interpretation**

For the purpose of calculating the Management Fee (pursuant to Sub Section 14.2 below) and the Performance Fee (pursuant to Sub-Section 14.3 below), it is intended to avoid double counting of the performance fees earned by the Management Company, the AIFM or one of their Affiliates in relation to any PF Exempted Asset, subject to a floor equal to 5% of the Unadjusted Management Fee cumulated over the relevant Financial Year for the entire Financial Year.

To this end, the Management Company will take into account the aggregate of the performances of all the assets comprised within the Sub-fund's portfolio, gross of any performance fee earned by the Management Company, the AIFM or one of their Affiliates in relation to any PF Exempted Asset.

Accordingly, should any ambiguity arise in the calculation of the Management Fee and/or the Performance Fee, the Management Company and the AIFM (acting in a commercially reasonable manner) will interpret the provisions set forth in Sub-Section 14.2 and/or in Sub-Section 14.3 below (as applicable) in light of this principle for the purpose of such calculation.

### **14.2 Management Fee**

The Management Company will be paid by the Sub-fund a Management Fee which will be an amount in CHF, calculated and accrued monthly, payable annually, equal to: (i) the Unadjusted Management Fee, minus (ii) the Excess Performance Fee, in each case for the relative period. If, at the end of the relevant Financial Year, the Unadjusted Management Fee

cumulated over the Financial Year minus the Excess Performance Fee for the relevant Financial Year is a figure which is less than 5% of the Unadjusted Management Fee cumulated over the Financial Year, the Management Fee will be equal to 5% of the Unadjusted Management Fee cumulated over the relevant Financial Year for the entire relevant Financial Year. In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Sub-Fund.

For the purposes of this Section 14:

- (a) the **Unadjusted Management Fee** is an amount calculated monthly and equal to the product of (i) the Management Fee Rate on an annualised basis and (ii) the Sub-fund Zero Fee Net Asset Value as of the end of the relevant month;
- (b) the **Sub-fund Zero Fee Net Asset Value** at any time is the Net Asset Value in CHF of the Sub-fund at that time minus the Net Asset Value in CHF of any F Exempted Assets at that time; and
- (c) an **F Exempted Asset** is a SSA issued in the form of a UCI which is managed by the Management Company, the AIFM or one of their Affiliates and in relation to which that manager earns a management fee which is greater than zero.

The maximum Management Fee Rate will be equal to two per cent. (2%) (exclusive of VAT, if due).

The Management Fee Rate may differ between Sub-Classes and Series.

### 14.3 Performance Fee

The Management Company is entitled to a performance fee (**Performance Fee**), which will be calculated in respect of each period (each a **Reference Period**).

The first Reference Period starts on the Initial Closing (inclusive) and ends on the last day of the calendar month in which the Initial Closing occurs. Each subsequent Reference Period corresponds to a calendar month and will commence on the first day of the month following the end of the immediately preceding Reference Period and ends on (i) the last day of that month (if the Sub-fund has not been liquidated as of this date) or (ii) the date on which the Sub-fund is liquidated.

The Management Company may decide, in its sole and absolute discretion, to partially or totally waive the application of the Performance Fee in relation to certain Classes of Units.

The Management Company will be paid by the Sub-fund a Performance Fee which will be an amount in CHF, calculated and accrued monthly, payable annually, equal to the difference between (i) the Unadjusted Performance Fee and (ii) any performance fee earned by the Management Company, the AIFM or one of their Affiliates in relation to any PF Exempted Asset during the relative Financial Year, converted into CHF at the then current spot rate if

not denominated in CHF, in each case for the relative Financial Year. If, at the end of the relevant Financial Year, the cumulative result of the calculation is a figure which is less than zero, the Performance Fee will be zero for the entire relevant Financial Year.

For the purposes of this Section 14:

- (a) the **Unadjusted Performance Fee** is an amount equal to up to twenty per cent (20%) of the Out-Performance on an annualised basis;
- (b) a **PF Exempted Asset** is a SSA issued in the form of a UCI which is managed by the Management Company, the AIFM or one of their Affiliates and in relation to which that manager earns a performance fee which is greater than zero;

a performance fee which is earned by a manager but is ultimately paid to an investment adviser or sub-manager which is not an Affiliate of the Management Company or the AIFM is taken to be zero;

- (c) the **Excess Performance Fee** is an amount equal to (i) any performance fee earned by Management Company, the AIFM or one of their Affiliates in relation to any PF Exempted Asset during the relative Financial Year, converted into CHF at the then current spot rate if not denominated in CHF, minus (ii) the Unadjusted Performance Fee cumulated over the relative Financial Year. If, for any relative Financial Year, the result of the calculation is a figure which is lower than zero, the Excess Performance Fee for that period will be zero;
- (d) the **Out-Performance** as of any Valuation Point is equal to the difference between (i) the sum of (a) the Sub-fund's Net Asset Value, net of all fees and costs but accrued Performance Fee and (b) any performance fee earned by the Management Company, the AIFM or one of their Affiliates in relation to the PF Exempted Assets during the relative Financial Year, converted into CHF at the then current spot rate if not denominated in CHF, and (ii) the highest value between (x) the Benchmark and (y) the High Water Mark;
- (e) the **High Water Mark** is equal to the highest level reached by the Sub-fund's Net Asset Value at which a Performance Fee was paid. For the avoidance of doubt, a payment of Performance Fee due to a redemption shall not be taken into account for the determination of the High Water Mark;
- (f) the **Benchmark** is, in relation to a given Valuation Point, the Benchmark value as of the previous Valuation Point increased by the performance of the Out-Performance Hurdle over the period (i.e. and for the avoidance of doubt, between these two Valuation Points) if the two Valuation Points are during the same Financial Year. The first Benchmark value is the Sub-fund Net Asset Value as of the relevant date of determination and the first Benchmark value for a new Financial Year is the Sub-fund Net Asset Value as of the last Valuation Point of the previous Financial Year increased by the performance of the Out-Performance Hurdle over the period;

- (g) from January 1st, 2022, **included**, the **Out-Performance Hurdle** is SARON 3-month Compound Rate capitalized plus six per cent (6%) on an annualised basis or a lower percentage agreed between the Management Company and the relevant unitholder.

In addition, the following has to be replicated in the Benchmark and in the High Water Mark:

- the same variation of subscription as the Sub-fund;
- in case of redemption or distribution payment, the Benchmark and the High Water Mark respective values are reduced according to the following ratio: amount redeemed or distributed divided by the total Net Asset Value of the Sub-fund.

At the end of the relevant Financial Year, provided that a Performance Fee provision is retained, Performance Fees are kept by the Management Company and the High Water Mark is adjusted to the Sub-fund's Net Asset Value for the following Financial Year. If no provision remains at the end of the relevant Financial Year, no Performance Fee is kept by the Management Company, the High Water Mark is kept unchanged. Accordingly, the High Water Mark remains equal to the Fund's Net Asset Value as recorded at the date of the last payment of Performance Fee, or at the initial Fund's Net Asset Value if no Performance Fee has ever been paid. **Investors must be aware that under certain circumstances, a global Out-Performance of the Sub-fund would imply a Performance Fee payment to the Management Company while individual performance of some investors, depending on the point of time they subscribed to the Units, may lag below the Out-Performance Hurdle.**

In case of redemption of Units, a proportion of the Performance Fee and Management Fee provisions will be paid to the Management Company at the time of such redemption, corresponding to the ratio of the amount of Units redeemed divided by the total number of Units of the relevant Class in case of a redemption.

A Performance Fee, once paid, will not be returned to the Sub-fund, irrespective of subsequent losses.

#### **14.4 Subscription fee**

On subscription for Units by an Investor, the Management Company will not charge a subscription fee.

#### **14.5 Formation costs**

The expenses incurred by the Management Company in relation to the launch of the Sub-fund will be borne by and payable out of the assets of the Sub-fund and may be amortized on a straight line basis over a period of up to five (5) years from the launch date of the Sub-fund, unless the Management Company shortens this period.



#### **14.6 Other fees**

The Sub-fund will pay all other costs and expenses related to its operations (inclusive of VAT), including all administrative (such as, without limitation, Depositary fees), accounting, legal and corporate costs, investment related expenses (e.g. brokerage, legal, commissions, clearing and settlement charges, custodial fees, interest in margin accounts and interest expenses); offering expenses including legal expenses; the costs of third-party pricing services and price quotation services; auditing and tax preparation expenses; entity-level taxes; regulatory and registration expenses; organisational and offering expenses (and will expense its organisational expenses as permitted under applicable accounting rules); and extraordinary expenses.

#### **15 PUBLICATION OF THE NET ASSET VALUE**

The unaudited NAV per Unit as well as the Issue Price are available at the registered office of the Management Company on the day falling no later than thirty (30) Calendar Days after each Valuation Point.

#### **16 REPORTING**

In addition to the annual report, the AIFM may periodically prepare a status report on the Sub-fund's investments and activities during the applicable period. The AIFM may establish such further reports as it considers necessary or useful in its absolute discretion.

#### **17 DISTRIBUTIONS**

The Management Company intends to distribute Net Proceeds quarterly. Distributions will be made within sixty (60) Calendar Days after the last Business Day of each March, June, September and December of each year (each a **Distribution Date**). The first Distribution Date is anticipated to occur in June 2016 .

Distributions, if any, will be made exclusively in cash, subject to Sub-Sub-Section 8.1.1.

#### **18 DISAPPLICATION OF CERTAIN PROVISIONS OF THE ISSUING DOCUMENT**

##### **18.1 Consolidation of Sub-funds**

Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company may not resolve to amalgamate the Sub-fund with another sub-fund of the Fund.

##### **18.2 Co-management and pooling**

Notwithstanding any other provision of the Issuing Document to the contrary, the AIFM may not rely on, nor enforce, the provisions set forth by section 17 of the Issuing Document relating to co- management and pooling .

## 19 SIDE LETTERS

The Management Company and the AIFM may from time to time enter into letter agreements or other similar agreements (collectively, **Side Letters**) on behalf of the Sub-fund with one or more Investors individually to clarify, outline or supplement the terms of the Issuing Document and Subscription Agreement applying to their Subscription Amount or holdings in the Sub-fund.

Without prejudice to Luxembourg law and equitable treatment of Unitholders' obligations, Side Letters may result in some Investors having more or different information than others. Similarly, Subscription Agreements may vary from one investor to another.

## 20 RISKS RELATED TO THE SUB-FUND

### 20.1 General

**AN INVESTMENT IN THE SUB-FUND INVOLVES CERTAIN RISK FACTORS AND CONSIDERATIONS RELATING TO THE SUB-FUND'S STRUCTURE AND INVESTMENT OBJECTIVE WHICH PROSPECTIVE INVESTORS SHOULD EVALUATE BEFORE MAKING A DECISION TO INVEST IN THE SUB-FUND. NO ASSURANCE CAN BE GIVEN THAT THE SUB-FUND WILL SUCCEED IN MEETING ITS INVESTMENT OBJECTIVE OR THAT THERE WILL BE ANY RETURN ON CAPITAL. MOREOVER, PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.**

Potential Investors should take into account the fact that the expectations discussed in this Supplement regarding potential returns for Investors relate to returns once the aggregate Subscription Amount is fully invested.

Before making any investment decision with respect to the Units, any prospective Investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below. The following is a brief description of certain factors, which should be considered along with other matters discussed elsewhere in the Issuing Document. The following does, however, not purport to be a comprehensive summary of all the risks associated with an investment in the Sub-fund generally. Rather, the following are only certain particular risks to which the Sub-fund is subject and that the Sub-fund wishes to encourage prospective Investors to discuss in detail with their professional advisors.

This Section contains an outline description of certain relevant considerations, including a number of categories of risk that the AIFM believes may arise from any investment in the Sub-fund.

**INVESTMENT IN UNITS MAY INVOLVE SIGNIFICANT RISKS AND REQUIRES THE CONSIDERATION OF COMPLEX MATTERS.**

Prospective Investors must possess the technical and financial means to understand, investigate, evaluate and assume these risks.

The outline description below, however, is neither detailed nor exhaustive and, in making a decision to invest in the Sub-fund, prospective Investors must, in consultation with their own legal, tax, financial and other professional advisers and without reliance on the Management Company, the AIFM, the Sub-fund and their respective Affiliates and advisers, identify all possible considerations and risks. These may include those risks arising from the nature and structure of the Sub-fund and its Investments, and risks associated with the particular legal, tax, financial or other circumstances of each Investor, including, without limitation, the various contracts referred to in this Supplement, its Investment Strategy and Investment Policy, the relevant laws of Luxembourg and all other jurisdictions concerned and any other relevant matters.

Before any decision to invest in the Sub-fund, prospective Investors must also carefully read Section 3 of this Supplement which describes some of the Target Assets in which the Sub-fund may invest and certain risks considerations associated with such Target Assets.

#### 20.1.1 **Suitability risk**

Prospective Investors should ensure that they understand the nature of the Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Units and that they consider the suitability of such Units as an investment in the light of their own circumstances and financial condition. An investment in the Sub-fund should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

None of the Management Company or the AIFM or any of their respective Affiliates makes any representation as to the proper characterisation of the Units for investment or other purposes, as to the ability of particular Investors to purchase Units for investment or other purposes under applicable investment restrictions or policies which may be applicable to them or as to the accounting, capital, tax and other regulatory or legal consequences of ownership of the Units. All institutions the activities of which are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Units are subject to any investment, capital or other restrictions.

#### 20.1.2 **Redemption risk and NAV freeze**

**Investors may redeem Units in accordance with the terms of the Supplement. Large redemptions of Units might result in the Sub-fund being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In addition, a significant redemption of Units may require the Sub-fund to realize Investments at values which are lower than the anticipated market values of such Investments. This may cause a temporary imbalance in the Sub-fund's portfolio.**

Unitholders may request redemption of Units which Redemption Price can be settled through the disposal and/or redemption of SSAs which have been allocated to the Tradable Assets

Category or the Deferred Redemption Assets Category. If in relation to any Valuation Day, the value of the total number of Units to be redeemed pursuant to Redemption Notices relate to more than the Threshold, then requests for redemption in excess of the Threshold will be automatically cancelled.

Without limiting the generality of the foregoing, if in relation to any Valuation Point, the value of the total number of Units to be redeemed pursuant to Redemption Notices relate to more than the Deferred Threshold, then such requests for redemption in excess of the Deferred Threshold will be a Deferred Redemption and will be treated on the following Deferred Redemption Days (for the avoidance of doubt, the portion of the redemption request in excess of the Threshold will be automatically cancelled) during a period of maximum one (1) year following the relevant Valuation Point subject to the following provision.

The Management Company also reserves the right to extend the period of one (1) year referred to above if prevailing market conditions and/or other circumstances which are outside of the control of the Management Company prevent and/or delay the disposal and/or redemption of the relevant Deferred Redemptions Assets.

Depending on the structural features of the relative SSAs and/or prevailing market conditions: (i) receipt of the proceeds of the disposal or redemption of SSAs in the Deferred Redemption Assets Category may only occur several months after the Redemption Notice is lodged with the Administrative Agent and (ii) the value of the Deferred Redemption Assets as of the preceding Valuation Point will differ from the value at which such Deferred Redemption Assets will be disposed of or redeemed and such difference may be substantial and (iii) all or part of the Deferred Redemption can be cancelled by the Management Company (acting in its sole and absolute discretion) if such redemption is not in the interest of the Sub-fund and/or the relevant redeeming Unitholder (including, for the avoidance of doubt, if the value of the relevant Deferred Redemption Asset has dropped since the date of the relevant Redemption Notice).

Where the SSAs of the Sub-fund are exclusively in the Buy and Hold Assets Category, Unitholders may make a redemption request, but any such request, may be declined (in whole or in part) by the Management Company and, if accepted (in whole or part), will be satisfied in accordance with Sub-Section 10.3 through redemption in-kind and not by payment of cash. As a result thereof, the liquidity of any investment in the Sub-fund is subject to the features of the relevant SSAs held by the Sub-fund at the time of receipt by the Administrative Agent of the Redemption Notice of the relevant Investor.

The AIFM may also, in consultation with the AIFM, temporarily delay the determination of the Net Asset Value per Unit of the Sub-fund and redemption of its Units under specific circumstances. An investment in the Sub-fund is suitable only for sophisticated investors who do not require liquidity for their investment and are prepared to hold their Units and/or investment for an extended period of time. The Management Company may also in consultation with the AIFM compulsorily redeem all or part of the Units held by any Unitholder.

Cash, or under certain circumstances, assets in-kind, will be distributed to redeeming Investors, as determined by the Management Company in accordance with the terms of this Supplement.

## **20.2 Investment risks**

It should be remembered that the price of the Units can go down as well as up and that, on the redemption of their Units, Investors may not receive the amount that they originally invested.

The return on the Sub-fund's assets will generally be dependent upon the availability and market price at which they can be purchased at the time investments are made.

Each SSA is a particular type of structured investment: it is a structured investment security with respect to which the related underlying portfolio of assets consists generally of assets, leveraged debt obligations, leveraged loans, insurance policies or mortgages and/or credit default swaps and total return swaps that reference such assets.

An Issuer's portfolio investments embeds inherent risks, including, among other things, credit, prepayment, liquidity and interest rate risk, the financial condition of the underlying obligors, general economic conditions, market price volatility, the condition of certain financial markets, political events and developments or trends in any particular industry.

Unitholders are exposed through the Sub-fund and its Investments (directly and/or indirectly through UCIs) to the following risks:

### **20.2.1 Risks associated with SSAs**

#### **✓ *Credit risks of projected investments***

The Sub-fund will invest (directly or indirectly through UCIs) in SSAs which are structured products with exposure to a portfolio of underlying assets and, as such, to risk including default risk, prepayment risk, recovery risk. SSAs can be rated below Investment Grade or may be unrated. These exposures carry a higher probability of default than the average portfolio rating would suggest.

The Sub-fund may have exposure to higher yielding (and, therefore, higher risk) debt securities. Such securities may be below Investment Grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the Issuer's inability to meet timely interest and principal payments. The market prices of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react generally to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. It is likely that a major economic recession or an environment characterised by a shortage of liquidity could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn or liquidity squeeze could adversely affect the ability of the

issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

✓ ***Risk associated with SSAs in general***

SSA securities generally are subject to credit, liquidity, currency, interest rate and other risks. The Sub-fund will invest generally in the residual interests of SSAs, but may also invest in some mezzanine and senior SSA debt tranches. The residual interests in SSAs very often take the form of highly subordinated debt having effectively the lowest priority in a SSA's priority of payments waterfall (that is, having the economic attributes of equity, since SSAs typically lack equity classes of economic substance). Substantially all (if not all) of the SSA residual tranches purchased by the company will be unrated or (if rated) will likely be non-Investment Grade. All or most of the SSA mezzanine debt tranches purchased by the Sub-fund are expected to be non-Investment Grade. As a holder of SSA residual interests, the Sub-fund generally will not have available to it any default remedies against the SSA issuer. SSA residual interests and SSA mezzanine debt tranches almost always represent highly leveraged investments in the SSA's asset pool, which are pledged to support the claims of higher ranking tranches of debt.

SSA securities generally are limited recourse obligations of the related SSA issuer, payable solely from the related SSA collateral or proceeds thereof. Consequently, holders of SSA securities must rely solely on distributions on the related underlying SSA collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying SSA collateral are insufficient to make payments on the SSA securities, no other assets are available for payment of the deficiency and, following realisation of the underlying assets, the obligations of the SSA to pay such deficiency are extinguished. SSA collateral may consist of loans, asset backed securities, high yield debt securities and other obligations, which often are rated below investment grade (or of equivalent credit quality). High yield debt securities generally are unsecured (and loans may be unsecured) and generally are subordinated to certain other obligations of the issuer thereof. The lower ratings of high yield securities and below Investment Grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative. In addition, SSA investments may involve some exposure to the credit risk of an institution selling assets into the SSA as well as the credit risk of the obligors of the underlying portfolio assets.

SSA securities may also be subject to interest rate risk. The collateral pool of a SSA may bear interest at a fixed (floating) rate while the obligations issued by the SSA issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such SSA securities and SSA collateral which bears interest at a fixed rate, and there may be a timing mismatch between the SSA securities and assets that are not fixed rate assets. In addition, the interest rate on floating rate assets may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the SSA securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the SSA securities. Although many SSAs attempt to hedge this interest rate risk, the

hedges do not eliminate this risk and the hedges may significantly reduce the distributions on the SSA equity tranches and SSA mezzanine tranches. Similar risks may exist with regard to currency risks, where a SSA has obligations denominated in one currency and underlying collateral denominated in another.

Managed SSA vehicles are exposed to the risk of under or misperformance by their collateral pool managers. Although SSA terms may contain provisions that allow measures to be taken to address certain performance issues with the managers, control over these measures often rests with the higher ranking debt classes, whose interests may diverge from those of the holders of the residual interests.

✓ ***Limited recourse in case of default***

As a holder of SSAs, the Sub-fund will generally have limited recourse against the Issuer. Such Investments almost always represent highly leveraged investments in SSA's asset pool, which supports first the claims of higher ranking tranches of debt. The Investments are generally expected to rank junior to senior debts such that no payments may be made on Investments until all payments on more senior debts have been paid in full. Such Investments have substantially greater credit and liquidity risk than more highly rated debt obligations.

In the event of default by an underlying obligor, holders of such underlying obligor's more senior debt will be entitled to payments in priority to the relevant SSA and in turn to the Sub-fund. Senior lenders will typically be entitled to block payments on subordinated loans if there is a senior payment or other default. Some of the Investments may also have structural subordination features that divert payments to more senior classes of debt. This may lead to interruptions in the income stream that the Sub-fund anticipates receiving from its Investment portfolio, which may lead to the Sub-fund having less income to distribute to Unitholders. Liquidation of the collateral upon any redemption of more senior tranches and/or remedies pursued upon enforcement of the security over such collateral could be adverse to the interests of the Sub-fund. Although the Sub-fund's assets generally have the benefit of security (or other priority rights), control of the timing and manner of the disposal of such assets upon a default typically may devolve to the holders of the senior class of debt outstanding depending upon the valuation of the Sub-fund's Investments. To the extent that any losses are incurred by a financier in respect of its related underlying assets, such losses will be borne first by the holders of the related equity tranches and then by the mezzanine tranches. In addition, if an event of default occurs under the applicable indenture, the holders of the most senior tranche of securities generally will be entitled to determine the remedies to be exercised under the indenture. Remedies pursued by such holders could be adverse to the interests of the holders of any related mezzanine tranches, in the case of outstanding senior tranches.

An Investment is generally a limited recourse obligation of the Issuer thereof payable solely from the assets of such Issuer or proceeds therefrom. Consequently, holders of the Investment must rely solely on distributions on the underlying collateral of such Investment or proceeds therefrom for payments in respect of such Investment. If the distributions on the underlying collateral of the Investment are insufficient to make payments on the Investment,

no other assets of the relevant underlying obligor will be available for payment of such deficiency.

✓ **SSA Tests**

SSAs may be characterised either as (i) cash flow SSAs, which have overcollateralization tests based on the relationship between the principal amount (or “par coverage”) of the SSA collateral securing the related SSA securities and interest coverage tests (but no tests based on the market value of the SSA collateral) or (ii) market value SSAs, which have overcollateralization tests that take into account the market value of the SSA collateral.

The satisfaction or not of these tests is of the utmost importance for the holders of SSA securities. For instance, in general, the cash flows received by a SSA in respect of its portfolio of assets which are not used to purchase additional assets during the applicable reinvestment period (net of the administrative expenses of such SSA) are used first to make payments to the holders of the related SSA senior tranche, second to make payments to the holders of the related SSA mezzanine tranches and finally to make payments to the holders of the related SSA equity tranche.

However, in almost all SSAs (whether synthetic or cash, managed or static), if the predetermined overcollateralization tests or interest coverage tests are not satisfied, cash flows that otherwise would have been paid to the holders of the SSA mezzanine tranches and the SSA equity tranches will be used to redeem the related SSA senior tranches.

Such structural features enhance the credit quality of the SSA senior tranches at the expense of the credit quality of the related SSA mezzanine tranches and, in particular, SSA equity tranches.

✓ **Prepayment**

Another factor which may cause payment streams from the Sub-fund's Investments to vary in timing and amount from the Sub-fund's expectations is the entitlement of underlying obligors of SSAs to prepay their debts or obligations. Due to SSAs' early payments, the expected maturity of securities issued by SSA issuers can fluctuate, the leverage of SSA may decrease with prepayments and, as a consequence, cash flows received by holders of subordinated tranches of SSAs may decrease significantly.

✓ **Limited due diligence by the AIFM on underlying assets of the SSAs**

None of the Sub-fund, the Management Company or the AIFM has made any corporate financial review of the underlying assets of the SSAs (including without limitation underlying obligors for CLOs and Reference Entities for Balance Sheet Securitizations) themselves.



✓ ***Mandatory redemption; early or accelerated payment in the Sub-fund's Investments***

Under certain circumstances, cash flows from the collateral of Investments that otherwise would have been paid to the holders of any related more junior tranches will be used to redeem or repay the related more senior tranches of those Investments. An auction process may be implemented. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other distributions made to the holders of such more junior tranches, which could adversely impact the returns to the holders of such tranches.

The average life of an Investment may be affected by the financial condition of the underlying obligor, the Issuer or the SPV and/or the characteristics of the underlying reference obligation, including, without limitation: the existence and frequency of exercise of any optional or mandatory redemption features; the prevailing level of interest rates; the redemption price; and the actual default rate. The ability of the AIFM to invest or reinvest proceeds will also affect the average life of the Investments of the Sub-fund.

✓ ***Optional redemption***

SSAs may often contain optional redemptions mechanisms pursuant to which the outstanding notes issued by the relevant SSA issuer may be redeemed at the direction of the holders of a certain majority of the principal amount outstanding of the subordinated notes.

The exercise of such optional redemption will shorten the average life of the SSAs and may reduce the yield to maturity of the SSAs. Moreover, such optional redemption is not required to result in any proceeds for distribution to the holders of the SSAs in excess of the applicable redemption prices. An optional redemption would result in a liquidation and sale or termination of the collateral assets into the then-existing markets.

The market value of the collateral assets will generally fluctuate with, among other things, changes in prevailing interest rates and spreads, general economic conditions, the condition of certain financial markets, local and international political events, developments or trends in any particular industry or for any particular type of security and the financial condition of the underlying obligors, the Synthetic Counterparties (if applicable) and the obligors under or issuers of the synthetic SSAs.

A decrease in the market value of the collateral assets would adversely affect the sale proceeds that could be obtained upon the sale or termination of the collateral assets and ultimately the ability of the SSA issuer of such SSA to pay in full or redeem the SSA securities following any sale, termination or other disposition of the collateral. A mandatory redemption could require the SSA issuer to liquidate positions more rapidly than would otherwise be desirable which could adversely affect the sale proceeds obtained and could cause lower termination payments to be payable by the SSA issuer.

✓ ***Subordination***

The Investments are generally expected to be subordinated in right of payment and ranked junior to senior debts such that no payments may be made on Investments until all payments on more senior debts have been paid in full. Such Investments have substantially greater credit and liquidity risk than more highly rated debt obligations.

In the event of default by an underlying reference obligor, holders of such underlying reference obligor more senior debt will be entitled to payments in priority to the Sub-fund. Senior lenders will typically be entitled to block payments on subordinated loans if there is a senior payment or other default. Some of the Investments may also have structural subordination features that divert payments to more senior classes of debt. This may lead to interruptions in the income stream that the Sub-fund anticipates receiving from its Investment portfolio, which may lead to the Sub-fund having less income to distribute to Unitholders. Liquidation of the collateral upon any redemption of more senior tranches and/or remedies pursued upon enforcement of the security over such collateral could be adverse to the interests of the Sub-fund. Although the Sub-fund's assets generally have the benefit of security (or other priority rights), control of the timing and manner of the disposal of such assets upon a default typically may devolve to the holders of the senior class of debt outstanding depending upon the valuation of the Sub-fund's Investments. Equity tranches of SPVs or securitizations, by way of example, are fully subordinated to any related senior tranches.

By way of illustration, with respect to Balance Sheet Securitization, to the extent that any losses are incurred by a Originating Institution in respect of its related Reference Portfolio, such losses will be borne first by the holders of the related equity tranches and then by the mezzanine tranches. In addition, if an event of default occurs under the applicable transaction documents, the holders of the most senior tranche of securities generally will be entitled to determine the remedies to be exercised under the transaction documents. Remedies pursued by such holders could be adverse to the interests of the holders of any related mezzanine tranches, in the case of outstanding senior tranches.

✓ ***Deferred interest payment risk***

Under certain circumstances, cash flows from the collateral of Investments that otherwise would have been paid to the holders of any related more junior tranches (including mezzanine tranches) will be used to redeem or repay the related more senior tranches of those Investments. An auction process may be implemented. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other distributions made to the holders of such more junior tranches, (including mezzanine tranches) which could adversely impact the returns to the holders of such tranches.

20.2.2 **Specific risks associated with Balance Sheet Securitizations**

Balance Sheet Securitizations are SSAs which involve specific risks in addition to those which are generally associated with most of the SSAs.

✓ ***Risk associated with synthetic securities***

Balance Sheet Securitizations show similar features with collateralised synthetic obligations. Investments in such types of assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of such securities, and will expose the Sub-fund to the credit risk of the Synthetic Counterparty as well as that of the Reference Entities.

The SPV, if the securitization is made through an SPV, will usually have a contractual relationship with the relevant Synthetic Counterparties only, and not with the Reference Entity except upon delivery of the applicable Reference Obligation, as the case may be. Such Investments do not constitute a purchase or other acquisition or assignment of any interest in any obligation of a Reference Entity.

The terms of the credit derivative transactions typically require payment to be made by the SPV to the Synthetic Counterparty if certain events occur, and those events are not limited to an event of default under the Reference Obligation. The SPV typically will be required to post collateral with the Synthetic Counterparty to secure the SPV's obligations under the credit derivative transaction, and the SPV's obligations to the Synthetic Counterparty will be senior in priority to distributions on Units of the Sub-fund. The SPV's credit derivative transactions may involve significant leverage.

The SPV (and therefore, the Sub-fund) generally will have no right directly to enforce compliance by the Reference Entity with the terms of the Reference Obligation nor any rights of set-off against the Reference Entity, nor have any voting rights with respect to the Reference Obligation. The SPV (and thus, the Sub-fund) will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In addition, in the event of the insolvency of the Synthetic Counterparty, the Sub-fund or the SPV having issued the Investment, will be treated as a general creditor of such Synthetic Counterparty, and will not have any claim with respect to the Reference Obligations. Consequently, the Sub-fund or the SPV, and therefore the Sub-fund, will be subject to the credit risk of the Synthetic Counterparty as well as that of the Reference Entity. As a result, concentrations of synthetic securities in any one Synthetic Counterparty subject the Sub-fund to an additional degree of risk with respect to defaults by such Synthetic Counterparty and such risk increases if the relevant Synthetic Counterparties are themselves Reference Entities in other Sub-fund's Investments, which may be the case with the Sub-fund.

✓ ***Credit risk associated with Balance Sheet Securitizations***

As the Sub-fund will invest in Balance Sheet Securitizations by directly or indirectly selling credit protection on Reference Portfolios held by the Originating Institutions, the Sub-fund will be exposed to the credit risk of such Reference Portfolios as well as, potentially, to the credit risk of Originating Institutions, of Synthetic Counterparties, of banks holding the collateral of the Sub-fund's investments, of the collateral used by the SPVs having issued the Sub-fund's Investments and of the counterparties with which the Sub-fund may enter into

financing arrangements, repurchase agreements or other derivatives transactions for the purpose of obtaining financing and thus leveraging the Sub-fund's assets.

✓ ***Balance Sheet Securitizations are different from other types of credit linked notes***

Since Balance Sheet Securitizations are securities which are credit-linked to the Reference Obligations (and the related Reference Entities), Investors should note that Balance Sheet Securitizations are different from ordinary, vanilla debt securities. The principal (but by no means the only) difference is that the amount of principal and interest payable by the Balance Sheet Securitization Issuer of the relevant Balance Sheet Securitization is dependent on a number of credit-related factors, including:

- (a) whether a credit event in respect of which the applicable conditions to settlement have been satisfied has occurred under the terms of the Credit Transaction in respect of any Reference Obligation and/or, as the case may be, Reference Entity;
- (b) how many Reference Obligations and/or Reference Entities have been subject to the occurrence of any such credit events; and
- (c) the amount of any cash settlement amount determined under the terms of the Credit Transaction following the occurrence of a credit event and the satisfaction of the applicable conditions to settlement.

If a credit event in respect of which the applicable conditions to settlement are satisfied occurs in respect of one or more Reference Obligations and/or their related Reference Entities, and if a cash settlement amount is determined under the terms of the Credit Transaction in respect of any or each of such credit events, then the outstanding principal amount of the relevant Balance Sheet Securitization will be reduced by amounts equal to each such cash settlement amount.

✓ ***Limited information may be available to the Sub-fund regarding certain Balance Sheet Securitizations***

The Balance Sheet Securitization Issuer, the trustee or the Originating Institution of some Balance Sheet Securitizations (or any other person involved in such Balance Sheet Securitizations) may not be required to provide any information to the Sub-fund at any time or from time to time regarding the Reference Entities or their obligations. Furthermore, these parties may not be required to provide any information to the Sub-fund at any time or from time to time regarding the prospect or likelihood of the occurrence of a credit event or a succession event relating to the Reference Entities under the Credit Transaction.

While it is expected that certain information pertaining to the determination of certain matters and events relating to the Reference Entities may be announced on ISDA's website at [www.isda.org](http://www.isda.org) (or any successor website thereto) from time to time, the determination of a Reference Obligation's credit event and certain other matters and events which relate to the Credit Transaction are unlikely to be so announced or otherwise in the public domain.

✓ ***Risks relating to determination of cash settlement amounts***

The amount by which the notional amount in respect of the Credit Transaction (and therefore the outstanding principal amount of the relevant Balance Sheet Securitization) may be reduced from time to time following the occurrence of credit events will depend on the size of cash settlement amounts calculated from time to time under the Credit Transaction, which to a large extent will depend on the valuation of the Reference Obligations which are selected by the Originating Institutions as valuation obligations pursuant to the Credit Transaction.

✓ ***Amount and timing of payments***

Investments often involves a degree of risk arising from fluctuations in the amount and/or timing of receipt of the principal and interest on the Reference Entity and the amounts of the claims of creditors ranking in priority to the SPV or the Issuer. In particular, the amount and timing of payment of the principal and interest on the Investments will depend upon the detailed terms of the documentation relating to each of the Reference Obligation and/or on whether or not any Reference Entity defaults in its obligations.

✓ ***Selection of valuation obligations***

Under Balance Sheet Securitizations, the calculation agent is required to calculate the cash settlement amount in accordance with a valuation methodology described in the confirmation in respect of the Credit Transaction. As part of this process, one or more valuation obligations may be selected by the Synthetic Counterparty. The selection of valuation obligations will be made by the Synthetic Counterparty in its sole and absolute discretion, provided that they fulfil certain criteria specified in the terms of the Credit Transaction. Accordingly, the Synthetic Counterparty is not required to, and will not, take into account the interests of the Sub-fund in making such selection.

✓ ***Counterparty risk***

Balance Sheet Securitization relating to the Investments will involve the entry into by the Sub-fund, or the SPVs having issued the Investments, of various over-the-counter agreements (such as, without limitation, credit default swaps, cash flow swaps, etc.) or financial guarantees, with a limited number of Synthetic Counterparties. Pursuant to such contracts, the counterparties agree to make payments to the Sub-fund or to the SPVs under certain circumstances. The Sub-fund's or the SPVs' incomes will be dependent on payments received in connection with such agreements.

The Sub-fund or the SPVs and therefore the holders of securities issued by such SPVs will be exposed to the credit risk of the relevant Synthetic Counterparty in respect of any such payments. The Sub-fund and the SPVs will rely substantially on the creditworthiness of these Synthetic Counterparties with respect to the performance of their obligations under the relevant agreements and the bankruptcy or any other form of insolvency of such Synthetic Counterparties will have a material adverse effect on the Sub-fund or on the SPVs and therefore on the Sub-fund as holder of the securities issued by the SPVs. The bankruptcy of

a Synthetic Counterparty may result in the total loss of the relevant Investment by the Sub-fund.

The Synthetic Counterparties may also be allowed to transfer their rights, obligations and/or interests under the relevant agreements which may result in a concentration of credit risk in relation to such transferee. They may also be entitled to terminate such agreements before their terms which may be prejudicial to the Sub-fund.

The Sub-fund will also be exposed to the credit risk of the counterparties with which the Sub-fund may enter into financing arrangements, repurchase agreements or other derivatives transactions for the purpose of obtaining financing and thus leveraging the Sub-fund's assets. The bankruptcy or any other form of insolvency of such counterparties may have a material adverse effect on the Sub-fund: pursuant to the terms of certain financing arrangements (including, without limitation, loan facility agreements, repurchase agreements, securities lending agreements, etc...), the bankruptcy of the counterparty may trigger an early termination of such financing arrangement and in this situation, the Sub-fund may be obliged to reimburse the counterparty of the amount borrowed; to the extent that the Investments purchased by the Sub-fund with the amount so borrowed are expected to be highly illiquid and that their maturity date was expected to match the scheduled termination date of the relevant financing arrangements, the Sub-fund may be compelled to dispose of such Investments at a price which is materially lower than their current value. As a result, the Sub-fund may not be able to readily dispose of such investments without incurring significant losses.

✓ ***Risks linked to collateral of Investments***

The Sub-fund generally invests in securities issued by SPVs or Issuers that are secured with specific collateral. However, the value of collateral may not equal the SPV's or the Sub-fund's investment or exposure when the securities are acquired or may decline below the principal amount of the securities subsequent to the SPV's or the Sub-fund's investment or exposure. In addition, if a collateral is sold, terminated or otherwise disposed of, it is not likely that the proceeds of such sale or termination will be equal to the amount of principal and interest owing in respect of such collateral. Therefore, the liquidation of the collateral may not satisfy the issuer's obligation to the Sub-fund in the event of non-payment of scheduled interest or principal, and the collateral may not be readily liquidated. In addition, in some circumstances, the liquidation of the collateral may not be permitted to the extent that collateral mechanisms may not be enforceable, depending on the different applicable laws.

The collateral is also subject to credit, liquidity, interest rate risks and, in some cases, non-credit related risks. The market value of the collateral and the Investment will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry. To the extent insufficient collateral is provided, the Sub-fund may be affected by a decline in the market value of the Investments.

Changes in credit spreads applicable to Reference Obligations could result in positive mark-to-market value to the relevant counterparty which, upon termination, would lead to a close-

out payment becoming due from the Sub-fund or the SPV which could adversely affect the amount available to them. A decrease in the market value of the collateral would adversely affect the sale proceeds that could be obtained upon the sale or termination of the collateral and could ultimately affect the amount available to the Sub-fund or the SPV.

✓ ***Custody risk***

The collateral securing the Sub-fund's or the SPV's exposure to Reference Obligations will be held by the Synthetic Counterparty of the SPV or the Issuer having issued the relevant Investments. Such collateral will generally be either deposited in a cash account with the Synthetic Counterparty or Issuer (as applicable), or transferred to the Synthetic Counterparty or Issuer (as applicable) as an upfront payment pursuant to a cash flow swap agreement. The bankruptcy of such Synthetic Counterparty or Issuer (as applicable) will have a material adverse effect on the relevant Investment and thus on the Sub-fund, especially if the collateral was not properly segregated from the Synthetic Counterparty's or Issuer's (as applicable) own assets and from the assets of its other customers. The bankruptcy of a Synthetic Counterparty or Issuer (as applicable) may result in the total loss of the relevant Investment by the Sub-fund.

In addition, the disposal proceeds realised (or payable) upon disposal of an Investment may be less than the price, if any, paid by (or to) the Sub-fund upon acquisition of such Investment and may, accordingly, result in the Sub-fund suffering a loss. The earnings with respect to such substitute Investment will depend, among other factors, on reinvestment rates available at that time and on the availability of Investments acceptable to the AIFM.

The need to identify acceptable Investments may require the acquisition of substitute Investments with a lower yield than those initially acquired or require that such disposal proceeds be maintained temporarily in cash or eligible investments, which may reduce the yield of the portfolio of the Sub-fund.

✓ ***Specific risks of Investments in Originating Institution's capital or debt***

Certain of the Sub-fund's Investments, for example, bank hybrid debt or the investment in financial institutions' capital, are deeply subordinated investments, with generally low recovery rates in case of insolvency of the relevant Originating Institution. This kind of investment may be subject to significant regulatory risks. In addition, these Investments are concentrated in a single industry.

### 20.2.3 **Specific risks associated with CLOs – Loans**

A CLO is a particular type of SSA: it is a SSA security with respect to which the related underlying portfolio of assets (or, in the case of a synthetic SSA obligation, the related underlying portfolio of reference obligations) consists generally of commercial and/or industrial loans (including "middle market" loans) to sub-Investment Grade companies and/or credit default swaps and total return swaps that reference such assets.

Such loans are typically negotiated by one or more commercial banks or other Financial Institutions and syndicated among a group of commercial banks and Financial Institutions. Corporate loans are typically at the most senior level of the capital structure, and are often secured by specific collateral, including, but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred stock of the obligor and its subsidiaries. The corporate loans included in the SSA collateral or referenced in a SSA security may be of a type generally incurred by the borrowers thereunder in connection with a highly leveraged transaction, often to finance internal growth, acquisitions, mergers, stock purchases, or for other reasons. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness is often judged by rating agencies to be below investment grade. Certain of the loans included in the SSA collateral or referenced in a SSA security may be subordinated to other obligations of the borrower. In order to induce the banks and institutional investors to invest in a borrower's loan facility, and to offer a favourable interest rate, the borrower often provides the banks and institutional investors with extensive information about its business, which is not generally available to the public. Because of the provision of confidential information, the unique and customised nature of a loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security and historically the trading volume in the loan market has been small relative to the high yield bond market.

Corporate loans often provide for restrictive covenants designed to limit the activities of the borrower in an effort to protect the right of lenders to receive timely payments of interest on, and repayment of principal of, the loans. Such covenants may include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. A breach of covenant (after giving effect to any cure period) in a loan that is not waived by the lending syndicate normally is an event of acceleration that allows the syndicate to demand immediate repayment in full of the outstanding loan. Loans usually have shorter terms than more junior obligations and may require mandatory prepayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities.

The majority of corporate loans bear interest based on a floating rate index, the certificate of deposit rate, a prime or base rate (each as defined in the applicable loan agreement) or other index, which may reset daily (as most prime or base rate indices do) or offer the borrower a choice of one, two, three, six, nine or 12 month interest and rate reset periods. The purchaser of a loan may receive certain syndication or participation fees in connection with its acquisition. Other fees payable in respect of a loan, which are separate from interest payments on such loan, may include facility, commitment, amendment and prepayment fees.

Purchasers of corporate loans are predominantly investment and commercial banks that have applied their experience in high yield securities to the commercial and industrial loan market, acting as both principal and broker. The range of investors for loans has broadened to include money managers, insurance companies, arbitrageurs, bankruptcy investors and mutual funds seeking increased potential total returns and portfolio managers of trusts or special purpose companies issuing collateralised bond and loan obligations. There can be no assurance, however, that future levels of supply and demand in loan trading will provide the degree of liquidity that currently exists in the high yield debt securities market.



#### 20.2.4 Specific risks associated with CDOs of ABSs

✓ **General considerations**

A portion of the Sub-fund may be comprised of CDOs of ABSs, which are backed generally by portfolios of ABSs. The structure of a CDO of ABSs, and the terms of the investors' interest in the underlying collateral, can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements.

Individual transactions can differ markedly in both structure and execution.

Important determinants of the risk associated with issuing or holding ABSs include (i) the relative seniority or subordination of the class of ABSs held by an investor, (ii) the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, (iii) the effect of credit losses on both the issuing vehicle and investors' returns, (iv) whether the underlying collateral represents a fixed set of specific assets or accounts, (v) whether the underlying collateral assets are revolving or closed-end, (vi) the terms (including maturity of the ABS) under which any remaining balance in the accounts may revert to the issuing vehicle and (vii) the extent to which the entity that sold the underlying collateral to the issuing vehicle is obligated to provide support to the issuing vehicle or to investors.

With respect to some types of ABSs, the foregoing risks are more closely correlated with similar risks on corporate bonds of similar terms and maturities than with the performance of a pool of similar assets.

In addition, certain ABSs (particularly subordinated ABSs) provide that the non-payment of interest thereon in cash will not constitute an event of default in certain circumstances, and the holders of such ABSs will not have available to them any associated default remedies. Interest not paid in cash will generally be capitalized and added to the outstanding principal balance of the related security. Deferral of interest through such capitalisation will reduce the yield on such ABSs.

Holders of ABSs bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks.

Credit risk arises from (i) losses due to defaults by obligors under the underlying collateral and (ii) the issuing vehicle's or servicer's failure to perform their respective obligations under the transaction documents governing the ABS. These two risks may be related, as, for example, in the case of a servicer that does not provide adequate credit-review scrutiny to the underlying collateral, leading to higher incidence of defaults.

✓ ***Risk of higher severity upon default exists due to double layer of leverage of ABS CDO securities.***

Market risk arises from the cash flow characteristics of the ABS, which for most ABSs tend to be predictable. The greatest variability in cash flows comes from credit performance, including

the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels.

Interest rate risk arises for the issuer from: (i) the pricing terms on the underlying collateral; (ii) the terms of the interest rate paid to holders of the ABS; and (iii) the need to mark to market the excess servicing or spread account proceeds carried on the issuing vehicle's balance sheet. For the holder of the security, interest rate risk depends on the expected life of the ABSs, which may depend on prepayments on the underlying assets or the occurrence of wind-down or termination events. If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with underlying collateral comprised of non-standard receivables or receivables originated by private retailers who collect many of the payments at their stores.

Structural and legal risks include the possibility that, for example, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator's other assets (or similar reasons): (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator; or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such a determination could result also in losses and/or delayed cash flows.

#### 20.2.5 Risks associated with Warehoused Assets – Non Closing of Warehoused SSAs

✓ ***Risk on junior Warehoused Assets (including, without limitation, risk of valuation of these assets)***

The Investments in Warehoused Assets will consist of junior exposure to warehouses. Warehouses are short term funding structures for an SPV prior to closing of the CLO. Investors in junior exposure are exposed to risk of credit losses for the duration of the warehouse, risk of market value decline until the pricing of the target CLO and continued risk of loss on credit and market value decline on ineligible assets to the CLO. During the period of the warehouse, junior exposure will be completely illiquid, valuation will be model based and risk of loss on the position may exceed initial investment.

In connection with Warehoused Assets for which no external pricing information is available, the AIFM will rely on internal pricing models, using certain modelling and data assumptions. Such valuations may vary from valuations performed by other parties for similar types of securities.

Models are inherently imperfect. In particular, but without limitation, models rely on various assumptions, some of which are subjective. The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific

knowledge and alternative theories governing valuation of investments. Modelling is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM.

✓ ***Warehoused Assets – non closing of Warehoused SSAs***

Regarding Warehoused Assets, there is absolutely no guarantee that the expected issuance and closing of the Warehoused SSAs will occur (including, without limitation, because of adverse market conditions and/or lack of prospective investors at the time of such expected closing). In such circumstances, the portfolio of underlying collateral obligations will be sold and the sale price of such assets may be lower than par or their purchased price. In addition, the sale proceeds of such collateral obligations will be used first to reimburse the senior lenders of the warehouse facility. The Sub-fund's right to be paid amounts due under the Warehoused Assets will be subordinated to prior ranking claims in the warehouse facility. Consequently, the Sub-fund could incur substantial losses on its investment and potentially all the amount invested in such Warehoused Assets.

20.2.6 **Risks associated with RRTs**

✓ ***Risk of valuation of RRTs***

In connection with RRTs for which no external pricing information is available, the AIFM will rely on internal pricing models, using certain modelling and data assumptions. Such valuations may vary from valuations performed by other parties for similar types of securities.

Models are inherently imperfect. In particular, but without limitation, models rely on various assumptions, some of which are subjective. The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge and alternative theories governing valuation of investments. Modelling is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists.

Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM.

✓ ***Risk associated with the structure of certain RRTs***

In respect of certain RRTs, the AIFM (acting on behalf of the Sub-fund) will exercise its voting rights along with other investors. Because the AIFM (acting on behalf of the Sub-fund) may not hold the majority of the votes alone, other investors' votes can also influence the decisions taken by the managing entity/body (such as, for illustration purposes only and without limitation,

the general partner of such RRTs) of these RRTs; this influence can have a positive or negative impact on the performance of such RRTs.

✓ ***Concentration risk on the collateral managers of RRTs***

RRTs are expected to carry large exposures to equity tranches of CLO transactions which are managed by a single collateral manager. As a result, investors in these RRTs will be exposed to the relevant collateral manager's ability to deliver on its business strategy.

✓ ***Risk associated with the illiquidity of RRTs***

It is likely that no secondary market or optional redemption will exist or continue for the life of the RRTs. In addition, the transfer clauses contained in the documentation of these RRTs may not allow the transfer of these transactions to other investors or may drastically restrict such transfer.

These transfer clauses and the lack of an established, liquid secondary market may have an adverse effect on the market value of such RRTs and on the Sub-fund ability to dispose of them. Prospective Investors should therefore be aware that they may be required to bear the financial risk of their investment in Units for an undetermined period of time.

✓ ***Rules relating to risk retention (and other recent and proposed regulatory changes) may adversely affect the Sub-fund.***

The United States Congress passed the "Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010" (**Dodd-Frank Act**) which makes sweeping changes to the regulatory scheme for the financial markets in the United States, and various governmental agencies in the United States have proposed, and will propose in the near future, additional regulations relating to financial markets and financial instruments. There can be no assurance that such changes in law and regulation will not have a material adverse effect on the Sub-fund and the holders of the Units.

In addition, the joint final rule implementing the credit risk retention requirements of Section 941 of the Dodd-Frank Act (**US Risk Retention Requirements**) was adopted on 21 October and 22 October 2014. Although that rule will not become effective until 24 December 2016 (the **US Risk Retention Effective Date**), it could limit the ability of the CLOs Issuers (the **CLO Issuers**) to issue additional notes or undertake any refinancing after the US Risk Retention Effective Date. As such, the potential risks posed by the Dodd-Frank Act and the rules to be promulgated thereunder in making any investment decision in respect of the notes issued by the CLOs Issuers may have a negative impact on the Sub-fund.

Investors should also be aware of the risk retention and due diligence requirements in Europe (**EU Risk Retention and Due Diligence Requirements**) which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings and UCITS funds (together, **Affected Investors**).

Amongst other things, such requirements restrict an Investor who is subject to the EU Risk Retention and Due Diligence Requirements from investing in securitisations unless: (i) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed that it will retain, on an on-going basis, a net economic interest of not less than five per cent. in respect of certain specified credit risk tranches or securitised exposures; and (ii) it is able to demonstrate that it has undertaken certain due diligence in respect of various matters including but not limited to its risk position, the underlying assets and (in the case of certain types of Investors) the relevant sponsor or originator. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those Investors subject to regulatory capital requirements, the imposition of a punitive capital charge on the Units acquired by the relevant Investor.

Though many aspects of the detail and effect of all of these requirements remain unclear, these requirements and any other changes to the regulation or regulatory treatment of securitisations or of the Units issued by the Sub-fund may negatively impact the regulatory position of individual Investors, and so the Sub-fund. In addition such regulations could have a negative impact on the price and liquidity of the Units in the secondary market and so have a negative impact on the Sub-fund.

Investors should note that the EBA published a report on 22 December 2014 (the EBA Report). In the EBA Report the EBA highlighted that the definition of "originator" should be narrowed in order to avoid potential abuses. At this time it is unclear what changes if any may be made following the EBA Report. There can be no assurances as to whether the Units issued by the Sub-fund will be affected if at all by a change in applicable law or regulation.

Without limiting the generality of the foregoing, such changes in the definition of "originator" could render the RRTs inefficient, could result in the restructuring of these RRTs (if practicable) and could potentially prevent such RRTs from pursuing their risk retention programs. Such change could thus have a material adverse impact on the Sub-fund and on the anticipated return of its investments.

#### **20.2.7 Risks associated with MBSs and ABSs - general risks**

It is expected that the Sub-fund will invest a significant portion of its assets in the interests issued by a UCI. The portfolio of such UCI will be comprised of SSA tranches, including, without limitation, MBSs and ABSs. For the avoidance of doubt, the Sub-fund may also directly invest in MBS and ABS.

The investment characteristics of MBSs and ABSs differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying residential or commercial mortgage loans or other assets generally may be prepaid at any time.

✓ **Default risk**

Credit-sensitive bond classes (**tranches**) of MBSs and ABSs are exposed to the default probability of the underlying loans and recovery rates on those liquidated loans. The default rates of loans backing these securities is dependent on a number of factors including national and regional economic growth, real estate values, the level of interest rates, the strength of new origination platforms, and other factors. Recovery values will be dependent largely on regional and national real estate values among other things, although real estate values are a function of other economic variables.

In recent years, the rate of default on mortgages underlying many MBSs, especially subprime mortgages, has increased significantly.

Subordinate credit support tranches are leveraged with respect to defaults. Many of these tranches have credit support that may change with the prepayments of the underlying loans. The ultimate performance of these tranches is thus dependent on both the default (involuntary prepayment) and voluntary prepayment performance of the underlying pool.

The manager of such UCI may not attempt to hedge default risk. To the extent that the manager of the UCI does attempt to hedge default risk, there can be no assurances that any hedging strategies used by the manager of the UCI will be successful. In either case, the UCI will be exposed to economic recession, decline in real estate prices, changes in the availability of mortgage financing, and other risks.

✓ **Prepayment risk**

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBSs and ABSs will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABSs are generally less likely to experience substantial prepayments than are MBSs, certain of the factors that affect the rate of prepayments on MBSs also affect the rate of prepayments on ABSs. However, during any particular period, the predominant factors affecting prepayment rates on MBSs and ABSs may be different.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, because the above-market coupon that such premium securities carry will be earned for a shorter period of time, and “discount” securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many MBSs will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these MBSs may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the UCI (and the Sub-fund) in two ways. First, particular investments may experience outright losses, as in the case of interest-only securities

in an environment of faster prepayments. Second, particular investments may underperform relative to hedges that the manager of the UCI may have constructed for these investments, resulting in a loss to the UCI (and to the Sub-fund). In particular, prepayments (at par) may limit the potential upside of many MBSs to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce the UCI's income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates the Fund's business could be materially adversely affected or the UCI (and the Sub-fund) could suffer significant losses.

✓ ***Index Risk***

The UCI may also invest in variable rate securities, including certain classes of derivatives (such as inverse floating rate securities), the rate of interest payable under which varies with a designated rate or index, such as Constant Maturity Treasury Indices (**CMT**), or the Eleventh District Cost of Funds Index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

Many ABS transactions have credit support that is dependent on the difference between the interest rate of the loans and the interest rate on the securities issued from the transaction. Many transactions have a mismatch between these two rates. For example, issued securities may float off overnight rate of term rate, while the underlying loans may be fixed for 2 years and then float off one-year CMT. Certain moves in these indices may thus be adverse to the credit support of various securities. These effects are very difficult to hedge, and the AIFM will in general not attempt to do so.

20.2.8 **Risks associated with ILS**

✓ ***Unpredictability of insured events and losses for ILSs; reliance on catastrophe risk modelling***

As far as ILS investments are concerned, the Sub-fund is subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of insured events can be expected to result in volatility with respect to the Sub-fund. A major loss or series of losses as a result of insured events may occur from time to time and, if affecting one or more of the Sub-fund's investments, could result in material loss.

The results of analyses performed with models (provided by third party risk modelling firms or not), cannot be viewed as facts, projections, or forecasts of future losses and cannot be relied upon as an indication of the future return on the Sub-fund's ILS related Investments. Actual loss experience can materially differ from that generated by such models.

Loss distributions produced by such models constitute estimated losses based on assumptions relating to, among other things, environmental, demographic and cost factors, many of which represent subjective judgments, are inherently uncertain and are beyond the control of the respective models agent (whether provided by third parties or not). The assumptions or methodologies used in such models may not constitute the exclusive set of reasonable assumptions or methodologies and the use of alternative assumptions or methodologies could yield results materially different from those generated. Further uncertainties arise from insufficient data, limited scientific knowledge, alternative theories governing empirical relationships, and the random nature of insured events themselves. In addition, there can be no assurance that any or all of the risk modelling firms (if any) will continue to perform such analyses and, if so, the amount of resources dedicated to such efforts. No model of insured events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different risk modelling firms. Accordingly, the loss estimates produced by such models are themselves based upon subjective determinations and subject to uncertainty. Professional risk modelling firms review their modelling assumptions from time to time in the light of new meteorological, engineering, and other data and information and refine their loss estimates as such information becomes available. Such refinements may materially alter, and have in the past materially altered, the loss estimates currently generated by these models.

The loss probabilities generated by such models are not predictive of future events, or of the magnitude of losses that may occur. Actual frequency of insured events and their attendant losses could materially differ from those estimated by such models.

Potential Investors in the Sub-fund should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Modelling insured losses resulting from insured events is an inherently subjective and imprecise process, involving an assessment of information that comes from a number of sources that may not be complete or accurate. No universal consensus on models or risk parameters exists. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the Portfolio Manager or by risk modelling firms.

✓ ***Risks related to ILS collateral***

The collateral backing the ILSs that the Sub-fund will acquire may include certain assets, the quality of which has not been thoroughly assessed by the AIFM. In the event of a deterioration of such collateral, the Sub-fund will not be able to recover the principal amount invested in such ILSs.

✓ ***Limited number of participants on the ILS market***

There is currently a very limited number of active participants (i.e. banks, broker-dealers, investors) on the ILS market, therefore limiting, inter alia, the liquidity of the ILSs in which the Sub-fund may invest, the ability of the Sub-fund to obtain various market quotations in relation to its investments, etc.



In addition, the bankruptcy of one of these participants will have material adverse consequences against the Sub-fund and other market participants, the effect of which will be magnified as compared to less concentrated assets classes.

#### 20.2.9 **Risks associated with Loans**

##### ✓ ***Risks associated with sub-Investment-Grade Loans***

Some of the assets of the Sub-fund may consist of Loans which may be unrated or rated below Investment Grade (or of equivalent credit quality), some of which may be subordinated to other obligations of the obligor and all of which will have greater credit and liquidity risk than Investment Grade sovereign or corporate bonds or Loans. Some of the assets of the Sub-fund may be leveraged Loans which are often issued in connection with leveraged acquisitions or recapitalisations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated.

A rating below Investment Grade reflects a greater possibility that adverse changes in the financial condition of an obligors or in general economic conditions or both may impair the ability of the relevant borrower or obligor, as the case may be, to make payments of principal or interest. Moreover, in certain circumstances, any such asset may default. Such investments may be speculative.

##### ✓ ***Available information on Loans held by the Sub-fund***

Investment decisions will be based largely on the credit analysis performed by the AIFM.

This analysis may be difficult to perform. Information about a loan and its issuer generally is not in the public domain. Many obligors have not issued securities to the public and are not subject to reporting requirements securities laws. Generally, however, those obligors are required to provide financial information to lenders and information may be available from other loan participants or agents that originate or administer Loans.

The AIFM may choose not to receive private information on loans in order not to be restricted on other securities issued by the obligor. Therefore, it may not receive all available information on the loans before making its investment decision or/and availability of audited data may be limited.

In addition, information necessary for the performance of any due diligence on Loans or obligor performed by the AIFM may be largely provided by the obligors. The accuracy, fairness or completeness of such information may not be verified by the AIFM.

##### ✓ ***Investments in cov-lite Loans***

A certain portion of the portfolio of the Sub-fund may consist of cov-lite Loans. Cov-lite Loans typically do not have maintenance covenants or contain usual protective covenants for the benefit of the lending party that serve as early warning signs of financial stress to lenders that they would otherwise receive through traditional protective covenants. Ownership of cov-lite Loans may expose the Sub-fund to different risks, including with respect to liquidity, price

volatility and ability to restructure Loans, than is the case with Loans that have the benefit of maintenance covenants.

✓ ***Amount and timing of payments***

Loans often involve a degree of risk arising from fluctuations in the amount and/or timing of receipt of the principal and interest due to the Sub-fund under the Loans. In particular, the amount and timing of payment of the principal and interest due to the Sub-fund under the Loans will depend upon the detailed terms of the documentation relating to each of Loan and/or on whether or not any obligor defaults in its obligations. Additionally, the timing and payments of interest and principal due to the Sub-fund may be affected in delays between the date at which the servicer of the Loans collects such sums and the date at which such servicer pays these sums to the Sub-fund.

The timing of payments to the units may thus be affected by all the above mentioned parameters.

Another factor which may cause payment streams from the Sub-fund's investments to vary in timing and amount from the Sub-fund's expectations is the entitlement of underlying obligors to prepay their debts or obligations and the claims occurring in respect of any Loans. In case of obligors default or if a claim occurs in respect of a Loan, the Sub-fund may be required to negotiate with the relevant obligor certain payments arrangements, restructuring of its debt or any similar arrangements which could adversely impacted the Sub-fund, the timing as well as the case may be the amount of payments due to the Unitholders.

✓ ***Risk on recovery value and recovery timing upon default of the Loans held by the Sub-fund***

Upon any Loan of the Sub-fund being in default, such Loan may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write down of principal and a substantial change in the terms, conditions and covenants with respect of such Loan. In such circumstances, the Sub-fund may also receive Exchange Debts Securities. There is no insurance that such Exchange Debts Securities will be valuable instruments for the future.

In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in uncertainty with respect to ultimate recovery on such obligation in default.

No assurance can be given as to the level of default and/or of recovery that may apply to any Investment purchased by the Sub-fund.

The participation of the Sub-fund to any substantial workout negotiation or restructuring may entail the Sub-fund, in its potential capacity as lender, to pay any amount, in particular, any indemnity or expenses to the coordination committee in relation to the performance of its

duties under the relevant procedure, to the extent that the obligor is unable to pay such costs which may have an impact on the performance of the Sub-fund.

✓ ***Impact of various insolvency regimes with respect to obligors***

Loans may be subject to various laws enacted for the protection of creditors in the jurisdiction of incorporation of obligors and, if different, in jurisdictions in which the obligors conduct business.

These insolvency considerations will differ depending on the country in which each obligor is located or domiciled. In particular, it should be noted that a number of continental European market jurisdictions operate "debtor-friendly" insolvency regimes which could result in delays in payments under Loans in the event of the insolvency of an obligor which is subject to such a regime.

The different bankruptcy regimes applicable in different European jurisdictions will also affect the level of recoveries and the enforceability of claims against the obligors thereunder.

✓ ***Counterparty Risks in relation to payment and settlement of flows***

Trading on Loans require that counterparty and the Sub-fund agree on the payment and settlement of flows (including the payment of fees). As there is no clearing system, the Sub-fund may suffer a counterparty risk during the settlement process.

The bankruptcy or insolvency of a major Financial Institution may have an adverse effect on the Sub-fund, particularly if such Financial Institution is a counterparty to a buy or sell trade that has not settled with respect to an asset with a Sub-fund or is the administrative agent of a Loan.

#### **20.2.10 Valuation risk**

There is no assurance that the estimates resulting from the valuation process will reflect the actual sales prices of the Investments held by the Sub-fund, even when such sales occur very shortly after the valuation date. Investments may be valued at their probable realisation value for considerable periods of time before further information or quotes become available which may have a substantial effect on the valuation of that date.

Moreover, in certain circumstances, there is no assurance that an Investment will have any available valuation.

A decrease in the market value of the Investments of the Sub-fund would adversely affect the sale proceeds that could be obtained upon the sale of such Investments and could, ultimately, affect the ability of the Sub-fund to effect redemption of the Units.

#### 20.2.11 Risks associated with the use of leverage

##### ✓ ***Leverage and financing risk***

Within the limits set forth in Sub-Sub-Section 4.2.2 and Sub-Section 4.4, the Sub-fund may leverage its Investment in circumstances where the AIFM believes that the use of leverage may enable the Sub-fund to achieve a higher rate of return. If the Sub-fund leverages its Investments to borrow additional funds for investment purposes, the Sub-fund will be required to pledge its Investments to secure such borrowings. The Sub-fund may also leverage its Investment return with options, short sales, swaps, forwards, repurchase and repurchase agreements and other derivative instruments. The cumulative effect of the use of leverage by the Sub-fund in a market that moves adversely to the Sub-fund's investment could result in a substantial loss to the Sub-fund which would be greater than if the Sub-fund were not leveraged.

The Sub-fund obtains financing to leverage its portfolio from various Financial Institutions. While the AIFM will attempt to negotiate the terms of these financing arrangements, its ability to do so is limited. The Sub-fund is therefore exposed to changes in the value that a Financial Institution ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position, and/or such Financial Institution's willingness to continue to provide any such credit to the Sub-fund. At any given time, leverage may not be available with respect to certain Investments held by the Sub-fund. Because the Sub-fund currently has no alternative credit facility that could be used to finance its portfolio in the absence of financing from Financial Institutions, it could be forced to liquidate its portfolio on short notice to meet its financing obligations. The forced liquidation of all or a portion of the portfolio of the Sub-fund at distressed prices could result in significant losses to the Sub-fund.

In addition, many of the Investments (including, but not limited to, tranches of Balance Sheet Securitizations and Warehoused Assets) involve very significant leverage. If the Sub-fund retains either the most or one of the most subordinated tranches of the SPVs or a tranching Reference Portfolio, it will hold the most leveraged investment in the Reference Portfolio.

While the leverage presents opportunities for increasing the Sub-fund's total return, it has the effect of potentially increasing sensitivity to losses and/or credit events. Accordingly, any event which adversely affects the value of an investment in a tranche of Balance Sheet Securitizations would be magnified to the extent such Investment is leveraged.

Regarding the use of Liquidity Draw-Downs by the Sub-fund, repayment of principal and payment of interests of such Liquidity Draw-Downs and any other scheduled or unscheduled payments associated with Liquidity Facility Agreements (such as, without limitation, termination payments, etc.) will rank prior to the principal and distributions payments of the Units to Investors.

✓ ***Risks associated with financing arrangements used in the leverage strategy***

Within the limits set forth in Sub-Section 4.4, the Sub-fund may enter into financing arrangements (including, without limitation, any kind of repurchase agreements, lending agreements, loan facility agreements, etc) to leverage its investments. Such financing arrangements may involve the pledge by the Sub-fund of certain of Investments in favour of the lender, the transfer of certain of the Sub-fund's Investments to the lender as collateral or the sale by the Sub-fund of debt securities to a Financial or Non-Financial Institution (as applicable). In a repurchase agreement, the Sub-fund sells a debt security to a buyer which undertakes to resell the debt security at a specified resale price on an agreed future date. The resale price generally exceeds the purchase price by an amount that reflects an agreed upon market interest rate for the term of the repurchase agreement.

If the Sub-fund defaults under a financing arrangement, it may be forced to liquidate its Investments to satisfy its debt obligations. In the event of the insolvency or bankruptcy of a lender or counterparty (as applicable) during the term of a financing arrangement, the lender or counterparty (as applicable) may be permitted, under applicable insolvency laws, to repudiate the contract, and the Sub-fund's claim against the lender or counterparty (as applicable) for damages may be treated simply as an unsecured creditor. Furthermore, if the lender or counterparty (as applicable) is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, the Sub-fund's ability to exercise its rights to recover its securities under a repurchase agreement or its securities transferred as collateral (as applicable) or to be compensated for any damages resulting from the lenders' or buyer's (as applicable) insolvency may be further limited by those statutes. These claims would be subject to significant delay and costs to the Sub-fund and, if and when received, may be substantially less than the damages the Sub-fund actually incurs.

If the AIFM ceases to be the alternative investment fund manager of the Sub-fund, it could constitute an event of default or early termination event under many of the Sub-fund's financing arrangements, repurchase agreements or derivative transaction agreements, upon which the Sub-fund's counterparties or lenders (as applicable) would have the right to terminate their agreements with the Sub-fund. Furthermore, if the AIFM ceases to be the alternative investment fund manager of the Sub-fund for any reason, and the Sub-fund is unable to obtain financing or enter into or maintain derivative transactions, the Sub-fund's business could be materially adversely affected or the Sub-fund could suffer significant losses.

The Sub-fund will also be exposed to the credit risk of the counterparties or lenders (as applicable) with which the Sub-fund may enter into financing arrangements for the purpose of obtaining financing and thus leveraging the Sub-fund's Investments. The bankruptcy or any other form of insolvency of such lenders or counterparties (as applicable) may have a material adverse effect on the Sub-fund: it may not be excluded that pursuant to the terms of certain financing arrangements, the bankruptcy of the lender or the counterparty (as applicable) may trigger an early termination of such financing arrangements and in this situation, the Sub-fund may be obliged to reimburse the lender or the counterparty (as applicable) of the amount borrowed; to the extent that the Investments purchased by the

Sub-fund with the amount so borrowed are expected to be highly illiquid and that their maturity date was expected to match the scheduled termination date of the relevant financing arrangement, the Sub-fund may be compelled to dispose of such Investments at a price which is materially lower than their current value. As a result, the Sub-fund may not be able to readily dispose of such Investments without incurring significant losses.

✓ **Possible margin calls**

In general, the anticipated use of derivative transactions, even if they are used for both hedging and investment purposes, results in certain additional risks to the Sub-fund. For example, should the securities pledged to counterparties to secure the Sub-fund's derivative transactions decline in value, the Sub-fund could be subject to a "margin call", pursuant to which the Sub-fund must either deposit additional funds or securities, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A decline in value of a derivative transaction also could result in a margin call that the Sub-fund must meet. In the event of a sudden drop in the value of the Sub-fund's assets, the Sub-fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

✓ **Credit derivatives risk**

If credit derivatives are used, the Sub-fund's performance will be directly tied to the occurrence of credit events affecting the underlying over-the-counter transactions concluded. The Sub-fund may be exposed through both direct investments and using derivatives having the characteristics of credit derivatives, which could entail a risk of a greater, faster decrease in the Sub-fund's net asset value than the markets in which the Sub-fund is invested.

✓ **Use of options**

The Sub-fund may buy or sell (write) put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a "covered" or an "uncovered" basis. The Sub-fund's options transactions will be part of a hedging tactic (i.e. offsetting the risk involved in another securities position). These activities involve risks that can be large, depending on the circumstances (such as increased risk of higher losses, cash constraints, volatility, wrong way risk). In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Sub-fund may enter into.

When the Sub-fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, would result in a total loss of the Investment in the option (including commissions). The Sub-fund could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (i.e. by buying the securities or buying options on them) on securities underlying put options.

When the Sub-fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the

market price of the underlying security above the exercise price. Theoretically, the risk is unlimited unless the option is “covered”. If it is covered, an increase in the market price of the security above the exercise price would cause the Sub-fund to lose the opportunity for gain on the underlying security, assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Sub-fund might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security's price below the exercise price would cause the Sub-fund to lose some or all of the opportunity for profit on the “covering” short position—assuming the Sub-fund sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the Sub-fund might suffer in closing out its short position.

#### **20.2.12 Credit ratings**

Credit ratings represent the rating agencies' opinions regarding credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an obligor's current financial condition may be better or worse than a rating indicates.

#### **20.2.13 Risks associated with below Investment Grade Investments**

The Sub-fund may have exposure to higher yielding (and, therefore, higher risk) debt securities. Such securities may be below Investment Grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the Issuer's inability to meet timely interest and principal payments. The market prices of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react generally to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. It is likely that a major economic recession or an environment characterised by a shortage of liquidity could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn or liquidity squeeze could adversely affect the ability of the Issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

#### **20.2.14 Lack of diversification risk**

The Sub-fund's portfolio is expected to consist generally of SSAs and will not be a diversified or balanced portfolio and, as a consequence, the aggregate return of the Sub-fund may be substantially adversely affected by the unfavourable performance of a single Investment. In

addition, the diversification of the Sub-fund's Investments could be even further limited to the extent the Sub-fund invests a significant portion of its capital in Investments which may be more or less correlated for a number of potential reasons. The Sub-fund is further expected to have a concentrated exposure to certain types of debt. The concentration of underlying assets in any one underlying obligor would subject the related transaction or the Issuer, and consequently the Sub-fund, to a greater degree of risk with respect to defaults by such underlying obligor and the concentration of underlying assets in any one industry would subject the related transaction or the Issuer, and consequently the Sub-fund, to a greater degree of risk with respect to economic downturns relating to such industry. Moreover, overlaps in certain underlying obligors or industries or Issuers over several or all the underlying assets would subject the Sub-fund to a higher degree of risk with respect to defaults by such underlying obligors or Issuers and economic downturns relating to such industry.

#### **20.2.15 Price volatility risk**

The prices of assets in which the Sub-fund may invest or to which the Sub-fund may have exposure, including SSAs, may be highly volatile. Price movements are influenced by, among other things: illiquidity in markets, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, U.S. and foreign political events and policies, changes in national and/or international interest rates and rates of inflation, currency devaluations and revaluations, rating agency actions, investor perceptions and market sentiments. None of these factors can be controlled by the AIFM, and no assurance can be given that the recommendation of the AIFM will result in profitable Investments for the Sub-fund.

As Investments may represent a leveraged investment in the SSA portfolio, it is expected that changes in the market value of such Investments will be greater than changes in the market value of the underlying assets, which themselves are subject to credit, liquidity, interest rate and other risks. Utilisation of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the SSA will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the underlying assets. The use of leverage generally magnifies the SSA's opportunities for gain and risk of loss.

#### **20.2.16 Liquidity risk**

There can be no assurance that any secondary market or optional redemption will exist or continue for the life of most of the Investments. The lack of an established, liquid secondary market for most of the Investments (especially those allocated to the "Deferred Redemption Assets" and "Buy and Hold Assets" Categories) may have an adverse effect on the market value of such Investments and on the Sub-fund's ability to dispose of them. Such "liquidity risk" could adversely affect the value of the Sub-fund's Investments and may be difficult or impossible to hedge against. As a result, the Sub-fund may not be able to readily dispose of portions of its portfolio without incurring significant losses. The liquidity of all Investments at any point in time will depend on their term and/or on the success of any exit strategy proposed for each Investment. Such strategy could be adversely affected by a variety of



factors. There is a risk that the Sub-fund may be unable to realise any realisation strategy proposed for an Investment or other disposal at attractive prices or at the appropriate times or in response to changing market conditions or will otherwise be unable to complete a favourable exit strategy. Losses may be realised before gains on disposals. Prospective investors should therefore be aware that they may be required to bear the financial risk of their investment in Units for an undetermined period of time.

#### **20.2.17 Uncertain average life of Investment**

The average life of an Investment may be affected by the financial condition of the underlying asset or the Issuer and/or the characteristics of the underlying assets or the Issuer, including, without limitation: the existence and frequency of exercise of any optional or mandatory redemption features; the prevailing level of interest rates; the redemption price; and the actual default rate.

#### **20.2.18 Lack of Investment opportunities**

The volume (both in terms of number and dollar) of deals involving SSAs may not be sufficient for the Sub-fund to invest the optimal amount of its assets in such instruments.

#### **20.2.19 Modelling risk**

In connection with certain Investments for which no external pricing information is available, the AIFM may rely on internal pricing models, using certain modelling and data assumptions. Such valuations may vary from valuations performed by other parties for similar types of securities.

Models are inherently imperfect. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM.

#### **20.2.20 Performance risk**

None of the Management Company, the AIFM and their respective Affiliates and advisers can guarantee any level of return to Unitholders or the repayment of Subscription Amount by the Sub-fund. Past performance of other investments managed by the AIFM cannot be taken as an indication of the future performance of the Sub-fund. The nature of and risks associated with the Sub-fund may differ materially from those investments and strategies historically undertaken by the AIFM. There can be no assurance that the AIFM or the persons associated with it or any other entity or person will realise returns comparable to those achieved in the past or generally available in the market. Investment losses may occur, and Investors could lose some or all of their investment.

#### **20.2.21 Risks linked to securities lending and repurchase or reverse repurchase agreement transactions**

Securities lending, repurchase or reverse repurchase transactions involve certain risks and there can be no assurance that the objective sought to be obtained from the use of such techniques will be achieved. The principal risk when engaging in securities lending,

repurchase or reverse repurchase transactions is the risk of default by a counterparty who has become insolvent or is otherwise unable or refuses to honour its obligations to return securities or cash to the Sub-fund as required by the terms of the transaction. Counterparty risk is generally mitigated by the transfer or pledge of collateral in favour of the Sub-fund. However, there are certain risks associated with collateral management, including difficulties in selling collateral and/or losses incurred upon realization of collateral, as described below.

Securities lending, repurchase or reverse repurchase transactions also entail liquidity risks due, inter alia, to locking cash or securities positions in transactions of excessive size or duration relative to the liquidity profile of the Sub-fund or delays in recovering cash or securities paid to the counterparty. These circumstances may delay or restrict the ability of the Sub-fund to meet redemption requests. The Sub-fund may also incur operational risks such as, inter alia, non-settlement or delay in settlement of instructions, failure or delays in satisfying delivery obligations under sales of securities, and legal risks related to the documentation used in respect of such transactions.

#### **20.2.22 Risk related to Collateral Management**

Counterparty risk arising from investments in OTC financial derivative instruments is, subject to the applicable regulation, generally mitigated by the transfer or pledge of collateral in favour of the Sub-fund. However, transactions may not be fully collateralized.

If a counterparty defaults, the Sub-fund could realize a loss due, inter alia, to inaccurate pricing or monitoring of the collateral, adverse market movements, deterioration in the credit rating of issuers of the collateral or illiquidity of the market on which the collateral is traded.

The Sub-fund may also incur a loss in reinvesting collateral received, where permitted. Such a loss may arise due to a decline in the value of the investments made.

Where permitted by the investment policy and subject to the applicable regulation, the Sub-fund's reuse of collateral received by it from its OTC derivative activity, within the limits set by applicable regulation, is likely to increase the Sub-fund's leverage and also increase the risks associated with the instruments into which cash collateral is invested, such as market risk, counterparty risk and liquidity risk.

#### **20.2.23 Sustainability Risk**

The Sustainability Risk is described in the section 32.7 of the general part of the Issuing Document of the Fund. Investors are therefore invited to refer to the aforementioned section of the Issuing Document.

### **20.3 Risks relating to the Sub-fund's business**

#### **20.3.1 Market risk**

Prevailing economic conditions, market conditions, investor sentiment and Issuers' sentiment will all have a substantial impact on the Sub-fund's ability to acquire Investments, the availability of Investments, the value of any Investments, and the opportunity for disposing of

Investments. Because such Investments may be made over a substantial period of time, the Sub-fund faces a risk of changes in interest rates and other adverse changes in market conditions.

#### **20.3.2 Currency risk**

Unitholders may be subject to fluctuations in currency exchange rates between the currency of their Class of Units and their respective national currencies.

Fluctuations in the currency markets may reduce the value in the relevant currency of the Investment as well as of income payable in local currency

#### **20.3.3 Hedging**

The Sub-fund may (but will not be required to) seek to mitigate risks by entering into hedging arrangements with third parties. The Sub-fund may choose to hedge particular risks but not others. While such transactions may reduce certain risks, such transactions themselves entail certain other risks, including potential tax implications. Thus, while the Sub-fund may benefit from the use of hedging techniques (if any such techniques are employed), unanticipated changes may result in a poorer overall performance for the Sub-fund than if it had not entered into any such transactions; in addition, entering into hedging transactions always results in a cost to be paid to the hedging counterparty. In the event of an imperfect correlation between a hedged position and the portfolio position that is intended to be protected, the desired protection will not be obtained and the Sub-fund may be exposed to risk of loss. Finally, the counterparty may be unable to pay the amount due on such instrument.

If a Class of Units is denominated in a currency other than the Base Currency, the AIFM is authorised to cause the Sub-fund to enter into currency hedge agreements to hedge currency risk for such class against the Base Currency. The hedging costs and expenses would be paid out of the Sub-fund's assets and will be solely born by the relevant non-Base Currency Class of Units. Investors in such Class of Units may be exposed to the gains/loss on and the costs of the currency forward contracts. This hedging policy may substantially limit holders of Class A-3 EUR Hedged (Capitalisation) Units, Class A-5 GBP Hedged (Capitalisation) Units, Class A-7 USD Hedged (Capitalisation) Units, Class B-3 EUR Hedged (Distribution) Units, Class B-5 GBP Hedged (Distribution) Units and Class B-7 USD Hedged (Distribution) Units from benefiting if the designated currency of such Class falls against the Base Currency.

#### **20.3.4 Operating deficits**

The expenses of operating the Sub-fund (including the fees payable to the Management Company, the AIFM and other service providers) may exceed the Sub-fund's income, thereby requiring that the difference be paid out of the Sub-fund's capital, reducing the value of the Sub-fund's Investments and potential for profitability.

#### 20.3.5 **Litigation**

Any dispute involving the Sub-fund or the assets of the Sub-fund could result in litigation or other legal proceedings which could have a material impact on the operations or the assets of the Sub-fund.

### 20.4 **Risks relating to economic conditions and regulatory environment**

#### 20.4.1 **General**

Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and other factors, could substantially and adversely affect the Sub-fund's prospects and, in particular, the Sub-fund's ability to acquire and dispose of Investments.

#### 20.4.2 **Regulatory risk**

The operation of the Sub-fund and the consequences of an investment in the Sub-fund are substantially affected by legal, tax and regulatory requirements, including requirements imposed by the securities laws and companies laws in various jurisdictions, including Luxembourg, as well as all laws and regulations applicable to securitisation schemes and/or to the underlying assets. No assurance can be given that future legislation, administrative rulings or court decisions will not adversely affect the operation of the Sub-fund or an investment by a Unitholder. The regulation of derivatives transactions and Sub-funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Sub-fund could be substantial and adverse.

#### 20.4.3 **Market disruption risk**

Instability in various parts of the world and the increasing prevalence of terrorist attacks throughout the world could have significant effects on the global economy. The Directors and the AIFM cannot predict the likelihood of these types of events occurring in the future or how such events may affect the Sub-fund.

#### 20.4.4 **Systemic risk**

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, monolines and exchanges, with which the Sub-fund interacts on a daily basis.

#### 20.4.5 **Current market and economic conditions**

The Sub-fund and its ability to acquire and dispose of Investments may more generally be adversely affected by the recent deterioration in the financial markets and economic conditions in Europe and throughout the world. For example, the following factors could adversely affect the Sub-fund and its ability to acquire or dispose of Investments to a greater

extent than normally anticipated: interest rate fluctuations; availability of credit and capital markets funding; increasing inflation (or deflation) rates; economic uncertainty; rating agency downgrades of European countries; Eurozone countries withdrawing from the Euro; rescheduling of sovereign debt; changes in laws and regulations (including tax laws and regulations relating to taxation); and national and international political circumstances

#### **20.4.6 Tax risk**

The tax consequences of an investment in the Sub-fund are complex, and the full tax impact of an investment in the Sub-fund will depend on circumstances particular to each Investor and the activities of the entities (including, without limitation the underlying UCIs) in which the Sub-fund invests. Accordingly, all prospective Investors should consult with their own tax advisors about the tax consequences of investing in the Sub-fund in their particular circumstances prior to investing in the Sub-fund.

Any change in the Sub-fund's tax status (and/or, in the tax status of the underlying UCIs' in which the Sub-fund may invest) or in the taxation legislation could affect the value of Investments and the Sub-fund's ability to achieve its investment objective. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position prevailing at the time of the investment is made in the Sub-fund will endure indefinitely. The Sub-fund (and indirectly the underlying UCIs in which the Sub-Fund may invest) may be subject to withholding or other taxes on income and/or gains arising from its Investments including without limitation taxes imposed by the jurisdiction in which the Issuer of Investments held by the Sub-fund is incorporated, established or resident for tax purposes.

Where the Sub-fund (and indirectly the underlying UCIs in which the Sub-fund may invest) invests in securities that are not subject to withholding or other taxes at the time of acquisition, there can be no assurance that tax may not be withheld or imposed in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. The Sub-fund (and indirectly the underlying UCIs in which the Sub-fund may invest) may not be able to recover such tax and so any change would have an adverse effect on the NAV of the Units.

The information on taxation matters included in this Supplement is not exhaustive, but is instead a summary of certain relevant aspects of the taxation law in force in certain jurisdictions at the date of this Supplement. Such laws are subject to change, prospectively or retroactively. Levels and bases of taxation in the relevant jurisdictions may change.

### **20.5 Risks related to Unitholders and Distributions**

#### **20.5.1 Recourse of Unitholders**

The Sub-fund is reserved to Well-Informed Investors who must be aware of the risks attaching to the investment in an undertaking for collective investment investing directly or indirectly in SSAs such as the Sub-fund, and accept that they will have recourse only to the Sub-fund's assets as these will exist at any time.

The Sub-fund's assets, including any Investments made by the Sub-fund, are available to satisfy all liabilities and other obligations of the Sub-fund. If the Sub-fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Sub-fund's assets generally and may not be limited to any particular asset, such as the asset representing the Investment giving rise to the liability.

#### 20.5.2 **Distributions**

The capacity of the Sub-fund to pay dividends to Unitholders depends on payments it receives from its Investments. The Sub-fund's ability to make distributions to Investors will also be limited to the extent of sufficient funds remaining after payment by the Sub-fund of administrative and other fees and expenses to third parties.

**The investment risks set out in this Supplement do not purport to be exhaustive and Investors should be aware that an investment in the Sub-fund may be exposed to risks of an exceptional nature from time to time.**

## **SUPPLEMENT TO THE ISSUING DOCUMENT OF AXA IM NOVALTO**

a mutual investment Fund (*fonds commun de placement*) organised in the form of  
an umbrella specialised investment fund (*fonds d'investissement spécialisé*)  
organised under the laws of the Grand Duchy of Luxembourg

## **CLO Credit Fund**

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## **1 NAME OF THE SUB-FUND**

The name of the sub-fund is CLO Credit Fund (the **Sub-fund**).

## **2 DEFINITIONS AND INTERPRETATION**

### **2.1 Definitions**

Capitalized terms used in this Supplement have the meaning ascribed to them in the Issuing Document, unless otherwise defined herein:

|   |  |
|---|--|
| <b>Average CLO Portfolio Rating</b>         | has the meaning ascribed to it in Sub-Sub-Section 4.2.1;   |
| <b>Base Currency</b>                        | USD;   |
| <b>Benchmark Fund</b>                       | means the Benchmark Fund described in Sub-Section 16.2;  |
| <b>Capitalisation Unit</b>                  | means a Unit in relation to which interest proceeds derived from CLO Tranches will be capitalised or reinvested and ultimately paid on redemption;   |
| <b>Class</b>                                | means each discrete and separate class of Units as described in Sub-Sub-Section 10.1.1;  |
| <b>Class A Units</b>                        | means the Class A-1 USD (Capitalisation) Units, the Class A-2 EUR (Capitalisation) Units, the Class A-3 Hedged EUR (Capitalisation) Units, the Class A-4 GBP (Capitalisation) Units, the Class A-5 GBP Hedged (Capitalisation) Units, the Class A-6 CHF (Capitalisation) Units, and the Class A-7 CHF Hedged (Capitalisation) Units, collectively; |
| <b>Class A Unit Investors</b>               | means all Investors in any Class A Units;  |
| <b>Class A-1 USD (Capitalisation) Units</b> | means the Capitalisation Units denominated in USD;   |
| <b>Class A-2 EUR (Capitalisation) Units</b> | means the Capitalisation Units denominated in EUR;   |

|  |   |
|--|---|
| <b>Class A-3 EUR Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in EUR which are hedged;   |
| <b>Class A-4 GBP (Capitalisation) Units</b>        | means the Capitalisation Units denominated in GBP;  |
| <b>Class A-5 GBP Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in GBP which are hedged;   |
| <b>Class A-6 CHF (Capitalisation) Units</b>        | means the Capitalisation Units denominated in CHF;  |
| <b>Class A-7 CHF Hedged (Capitalisation) Units</b> | means the Capitalisation Units denominated in CHF which are hedged;   |
| <b>Class B Units</b>                               | means the Class B-1 USD (Distribution) Units, the Class B-2 EUR (Distribution) Units, the Class B-3 Hedged (Distribution) Units, the Class B-4 GBP (Distribution) Units, the Class B-5 GBP Hedged (Distribution) Units, the Class B-6 CHF (Distribution) Units and the Class B-7 CHF Hedged (Distribution) Units, collectively; |
| <b>Class B Unit Investors</b>                      | means all Investors in any Class B Units;   |
| <b>Class B-1 USD (Distribution) Units</b>          | means the Distribution Units denominated in USD;  |
| <b>Class B-2 EUR (Distribution) Units</b>          | means the Distribution Units denominated in EUR;  |
| <b>Class B-3 EUR Hedged (Distribution) Units</b>   | means the Distribution Units denominated in EUR which are hedged;   |
| <b>Class B-4 GBP (Distribution) Units</b>          | means the Distribution Units denominated in GBP;  |
| <b>Class B-5 GBP Hedged (Distribution) Units</b>   | means the Distribution Units denominated in GBP which are hedged;   |
| <b>Class B-6 CHF (Distribution) Units</b>          | means the Distribution Units denominated in CHF;  |
| <b>Class B-7 CHF Hedged (Distribution) Units</b>   | means the Distribution Units denominated in CHF which are hedged;   |

|                                   |   |
|-----------------------------------|---|
| <b>CLO</b>                        | has the meaning ascribed to it in Sub-Section 3.1.2;  |
| <b>CLO Issuer</b>                 | has the meaning ascribed to it in Sub-Section 3.1.2;  |
| <b>CLO Manager</b>                | the manager of a CLO's assets;  |
| <b>CLO Tranche</b>                | has the meaning ascribed to it in Sub-Section 4.5;  |
| <b>Distributors</b>               | has the meaning ascribed to it in Section 5.;   |
| <b>Distribution Agreement</b>     | has the meaning ascribed to it in Section 5;  |
| <b>Distribution Unit</b>          | means a Unit in relation to which distributions will be made of interest proceeds derived from CLO Tranches during the term of the Unit;  |
| <b>Diversification Guidelines</b> | the maximum risk exposure the Sub-fund may have to any relevant CLO Issuer or counterparty, as laid down in Sub-Sub-Section 4.3.3;  |
| <b>Europe</b>                     | means the European Economic Area;   |
| <b>Hedge Counterparty</b>         | has the meaning ascribed to it in Sub-Section 4.6;  |
| <b>Hedging Agreements</b>         | has the meaning ascribed to it in Sub-Section 4.6;  |
| <b>Hedging Strategy</b>           | the hedging strategy of the Sub-fund as described in Sub-Section 4.6;   |
| <b>High Water Mark Fund</b>       | has the meaning ascribed to it in Sub-Section 16.2;   |
| <b>Indicative Value</b>           | has the meaning ascribed to it in Section 15;   |
| <b>Initial Closing</b>            | the date on or prior to which the initial Subscription Agreements have to be received and accepted by the Management Company in respect of the first offer of Units, anticipated to be 1 March 2016 or such later |

|                                     |   |
|-------------------------------------|---|
|                                     | date as the Management Company may determine in its absolute discretion;  |
| <b>Investment</b>                   | any investment by the Sub-fund;   |
| <b>Investment Grade</b>             | a rating of at least BBB- by Standard & Poor's or any equivalent rating by another rating agency;   |
| <b>Investment Restrictions</b>      | means the investment restrictions described in Sub-Sub-Section 4.3.2;   |
| <b>Investment Strategy</b>          | means the strategy described in Sub-Section 4.2;  |
| <b>Leverage</b>                     | means any method by which the AIFM, increases the exposure of the Sub-fund whether through borrowing of cash or transferable securities, or leverage embedded in derivative positions or by other means. The leverage of the Sub-fund is calculated in accordance with the AIFMD; |
| <b>Liquidity Draw-Downs</b>         | has the meaning ascribed to it in Sub-Section 4.4;  |
| <b>Liquidity Facility Agreement</b> | has the meaning ascribed to it in Sub-Section 4.4;  |
| <b>Liquidity Provider</b>           | has the meaning ascribed to it in Sub-Section 4.4;  |
| <b>Management Fee</b>               | the fee described in section 23.3 of the Issuing Document;  |
| <b>Out-Performance</b>              | has the meaning ascribed to it in Sub-Section 16.2;   |
| <b>Performance Fee</b>              | has the meaning ascribed to it in Sub-Section 16.2;   |
| <b>Redemption Day</b>               | each day on which Units are redeemed, being the tenth (10 <sup>th</sup> ) Business Days after the relevant Valuation Point or such other days as determined by the Management Company (in its absolute discretion);   |

|   |   |
|---|---|
| <b>Redemption Fee</b>                           | a fee applied on redemptions of units in accordance with Section 12;  |
| <b>Redemption Notice</b>                        | the notice to redeem any Units sent by an Investor in accordance with Section 12;   |
| <b>Redemption Price</b>                         | the price equal to the NAV per Unit of the relevant Class as at the relevant Redemption Day, less a Redemption Fee of up to three per cent (3%) of the NAV per Unit (it being understood that the Management Company, under certain circumstances and in its absolute discretion, may waive such charge); |
| <b>Redemption Threshold</b>                     | has the meaning ascribed to it in Section 12.1;   |
| <b>Reference Period</b>                         | has the meaning ascribed to it in Sub-Section 16.2;   |
| <b>Risk Retention Requirements</b>              | has the meaning ascribed to it in Sub-Section 4.7;  |
| <b>Section</b>                                  | a section of this Supplement;   |
| <b>Securitized &amp; Structured Assets Team</b> | has the meaning ascribed to it in Section 6.1;  |
| <b>SARON</b>                                    | means the Swiss Average Rate Overnight administered by SIX Swiss Exchange AG (or any successor administrator);  |
| <b>Series</b>                                   | means a series of Units within a Class or Sub-Class, each of which has the same terms and conditions, including with respect to fees;   |
| <b>Side Letters</b>                             | has the meaning ascribed to it in Section 20;   |
| <b>SONIA</b>                                    | means the Sterling Overnight Index Average rate administered by the Bank of England (or any successor administrator);   |
| <b>SOFR</b>                                     | means the Secured Overnight Financing Rate administered by the Federal Reserve  |

|                               |  |
|-------------------------------|--|
|                               | Bank of New York (or any successor administrator)  |
| <b>Subscription Agreement</b> | the subscription agreement Investors will be required to execute, which contains payment details and other material terms of an investment in the Sub-fund;  |
| <b>Subscription Amount</b>    | in relation to each Investor, the amount of capital invested in the Sub-fund by such Investor and, in relation to the Investors as a whole, the total amount of capital invested in the Sub-fund by all Investors; |
| <b>Subscription Fee</b>       | means the fee payable on subscription as laid out in Sub-Section 16.3;   |
| <b>Sub-Section</b>            | a sub-section of this Supplement;  |
| <b>Sub-Sub-Section</b>        | a sub-sub-section of this Supplement;  |
| <b>Transfer</b>               | has the meaning ascribed to it in Section 11;  |
| <b>Underlying Loan</b>        | has the meaning ascribed to it in Sub-Section 3.1.2;   |
| <b>Underlying Obligor</b>     | has the meaning ascribed to it in Sub-Section 3.1.2;   |
| <b>Unitholder</b>             | a holder of Units;   |
| <b>Valuation Point</b>        | the last Business Day in each calendar month;  |

## 2.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural and conversely.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a Section, Sub-Section, or Sub-Sub-Section is a reference to a provision of this Supplement.
- (f) A reference to an agreement or document (including, without limitation, a reference to this Supplement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Supplement, the Issuing Document and/or the Management Regulations or that other agreement or document.
- (g) A reference to a party to this Supplement or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (i) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (j) A reference to a statutory definition includes the definition as amended or replaced from time to time.
- (k) A reference to conduct includes, without limitation, an omission, statement and undertaking, whether or not in writing.
- (l) A reference to the Depositary, Administrative Agent, the AIFM or the Management Company includes a reference to their respective officers, employees and agents or any of them.
- (m) A reference to the Management Company or the AIFM being the registered owner, holder or transferee of any asset or as being the party to whom or by whom any payments (including but not being limited to payments of taxes) are to be made, is, where appropriate, a reference to any agent or delegate of the Management Company or AIFM.
- (n) A reference to a quarter is a reference to a calendar quarter commencing on 1 January, 1 April, 1 July or 1 October and ending on the next following 31 March, 30 June, 30 September or 31 December, respectively.

### 3 MARKET ENVIRONMENT AND OPPORTUNITY

#### 3.1 Collateralized Loan Obligations

A Collateralized Loan Obligation (**CLO**) is a security with respect to which the related underlying portfolio of assets consists generally of commercial and/or industrial loans (including “*middle market*” loans) to sub-Investment Grade companies (each such loan, an **Underlying Loan** and each obligor of such Underlying Loan, an **Underlying Obligor**) and/or credit default swaps that reference such assets. CLOs are usually issued by special purpose vehicles (each such issuer, a **CLO Issuer**).

Generally, CLO structures include interest and principal priority of payments that dictate the distribution of all net proceeds collected, measured on each date on which interest payments on the debt are due. The priority of payments typically changes as the transaction seasons and specific periods of the transaction life succeed: ramp-up period, reinvestment period and amortisation period.

CLOs will typically use proceeds generated by the assets to pay transaction expenses such as portfolio management and administrative fees and net hedging costs (if applicable). Principal proceeds are typically applied to cover any shortfalls in the interest priority of payments and then to either reinvest in additional assets during the reinvestment period or to redeem notes in order of priority during the amortisation period.

Because the more senior debt securities issued by a CLO structure are typically rated, ratings agency criteria play an important role in determining CLO characteristics.

#### 3.2 Market opportunity

The Sub-fund will invest in CLO Tranches initially rated AAA, AA, A, BBB, BB or B issued in USD, EUR or GBP. Despite an historical track record (in terms of actual default) better than the one of corporate credits, CLO debt tranches trade, on average, at discount in comparison to corporate credit names with similar ratings. This can, to some extent, be explained by a complexity premium but appears to be mostly due to a layer of regulations which penalized structured assets (including rated tranches of CLOs) as opposed to classic corporate credit names.

By nature, rated CLO tranches benefit from subordination in relation with losses that could occur in the underlying credit portfolios, allowing those tranches to deliver a higher performance compared to classic corporate credit portfolios with similar ratings.

Notwithstanding initial subordination to losses, the performance of the CLO Tranches targeted by the Sub-fund should be reliant on (i) the pace of refinancing of the US and/or European loan market, (ii) the pace at which call options on the CLO transactions are being exercised and (iii) the accumulation of losses that is expected to occur through the lifetime of CLO Tranches. Initial rating as well as ongoing rating on CLO tranches are given by rating agencies with some leeway to take into account historical default patterns on the US and



European Loan markets, it being understood that an heavily stressed period can generate losses on CLO rated tranches.

#### **4 INVESTMENT OBJECTIVE, INVESTMENT STRATEGY, INVESTMENT POLICY AND RESTRICTIONS, LEVERAGE AND HEDGING**

##### **4.1 Investment objective**

The Sub-fund's investment objective is to seek to achieve attractive rates of returns over the life of the Sub-fund through investments mainly in CLO Tranches.

The AIFM seeks to achieve the investment objective indicated above over the life of the Sub-fund through the coupon payments and the price appreciation of the CLO Tranches.

There can be no assurance that the investment objective of the Sub-fund will be achieved.

##### **4.2 Investment strategy**

###### **4.2.1 Overview**

###### *Investment Grade at purchase*

The Investments targeted by the Sub-fund are CLO Tranches. The average rating of the Sub-fund's portfolio (the **Average CLO Portfolio Rating**) is intended to be at least Investment Grade as at the purchase date of each CLO Tranche; provided that, if the Average CLO Portfolio Rating before a contemplated purchase is no longer Investment Grade, the investment can only be made if the Average CLO Portfolio Rating immediately after such purchase improves as compared to its level immediately prior to such investment. The Average CLO Portfolio Rating will be calculated as the average of the Sub-fund's portfolio CLO Tranches rating values as determined for each CLO Tranche by the AIFM, weighted by, (i) in the case of the CLO Tranches in the Sub-fund's portfolio, the last Indicative Value of each CLO Tranche and, (ii) for the CLO Tranche sought to be purchased by the Sub-fund, its purchase price.

An Investment put under watch to be reviewed by a rating agency will be assigned the value corresponding to its last available rating without regard to the "watch" label. When a CLO Tranche is rated by several rating agencies, for purposes of the calculation of the Average CLO Portfolio Rating, the average rating value of such CLO Tranche will be used.

For the avoidance of doubt, the the AIFM will have no obligation to maintain the Average CLO Portfolio Rating at Investment Grade level and, thus, they will be under no obligation to sell any CLO Tranches should any such CLO Tranches' respective ratings be downgraded.

The selection and allocation of CLO Tranches is not exclusively and mechanically based on their publicly available credit rating but also on an internal credit or market risk analysis.

The investments underlying this Sub-fund do not take into account the EU criteria for environmentally sustainable economic activities.

#### **4.2.2 *Implementing the Investment Strategy***

The AIFM will leverage on its long established relationships and networks with big participants in banking, insurance and capital markets and on its analysis capacity to source Investments for the Sub-fund.

There will be no borrowing for investment purposes; however, the Sub-fund may borrow under a Liquidity Facility Agreement in order to meet its obligations under a hedging strategy.

In addition, the Sub-fund may utilise various types of hedging instruments to minimise financial risks. Furthermore, the AIFM will generally seek to match to the extent possible expected cash flows to be received on the Investments with the cash flows to be distributed in different currencies (if applicable) to the different classes of Units to mitigate currency risk. See Sub-Section 4.6 for further detail.

The Sub-fund should have the flexibility to extract positive returns from the management of the duration through exposure to interest rate by entering into derivative contracts (adding some positive duration to floating assets portfolio if and when considered appropriate by the AIFM).

#### **4.2.3 *Reinvestment***

The AIFM may reinvest the proceeds from the disposal of certain Investments and the proceeds received by the Sub-fund in respect of its portfolio of Investments in substitute Investments.

### **4.3 *Investment policy and restrictions***

#### **4.3.1 *Eligible Assets***

Investments may include:

- 11) CLO Tranches;
- 12) Indexes or credit default swaps exposures on the instruments listed in item 1) above, including but not limited to Itraxx, CDX, indexes of financial institutions, stocks or bonds, loans, etc.;
- 13) Futures, swaps, swaptions, “over-the-counter” or traded on exchange options, or any other instrument with interest rate exposure (for the avoidance of doubt, the Sub-Fund will not use total return swaps);
- 14) Foreign exchange hedges, interest rate hedges and credit hedges; and

- 15) Cash and money market instruments (intended to be investments pending investment in CLO Tranches or distributions to Unitholders)

For the avoidance of doubt, the Sub-Fund will not enter into transactions involving the temporary purchases and sales of securities.

#### Eligible Currency

Investments denominated in USD, EUR and GBP, as well as any of their replacing currencies as the case may be, are eligible in the Sub-fund.

#### 4.3.2 **Investment Restrictions**

Subject to complying with the Diversification Guidelines and with Sub-Section 4.3.2 above, the Sub-fund may invest in all eligible assets as described in Sub-Sub-Section 4.3.1 above. However, the Sub-fund will not directly invest in consumer loans and / or working capital loans (**Prohibited Assets**). Direct Investments by the Sub-fund in those Prohibited Assets, in any form whatsoever, are excluded.

#### 4.3.3 **Diversification Guidelines**

The Sub-fund's Investments will comply with the following Diversification Guidelines:

- (i) the Sub-fund's exposure to a single CLO Issuer may not exceed in aggregate thirty per cent (30%) of the Sub-fund's last available Net Asset Value;
- (ii) the Sub-fund's exposure to a single counterparty in connection with over-the-counter transactions may not exceed in aggregate thirty per cent (30%) of the Sub-fund's last available Net Asset Value;
- (iii) the Sub-fund may hold cash representing up to one hundred per cent (100%) of the Sub-fund's last available Net Asset Value. All cash held by the Sub-fund will be deposited with the Depositary; and
- (iv) if the Sub-fund would have different kinds of risk exposure to the same entity (or to several entities which are Affiliates of each other), such risks, when aggregated, may not exceed thirty per cent (30%) of the Sub-fund's last available Net Asset Value.

The above Diversification Guidelines shall apply, with respect to any new Investment, at the time any such new Investment is decided. Compliance by the Sub-fund with the Diversification Guidelines mentioned above will be monitored by the Administrative Agent following the NAV calculation.

#### 4.4 Collateral Management

##### Eligible Collateral

Collateral received by the Sub-fund may be used to reduce its counterparty risk exposure if it complies with the criteria listed in circulars issued by CSSF from time to time in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;
- it should be valued on a daily basis on a mark-to-market price basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place. Margin calls will be implemented in accordance with the terms negotiated in the collateral arrangements;
- it should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;
- it should be sufficiently diversified in terms of country, markets and issuers and shall not entail on an aggregate basis an exposure to a given issuer for more than 20% of its Net Asset Value. By way of derogation, the Sub-fund may be fully collateralized in different Transferable Securities or Money Market Instruments issued or guaranteed by any of the Member States, one or more of their local authorities, a third party sovereign country such as Canada, Japan, Norway, Switzerland and the United States of America, or any public international body to which one or more Member State(s) belong(s) such as the European Investment Bank, provided that it receives such securities from at least six different issues and that securities from any single issue should not account for more than 30% of the Net Asset Value;
- the financial guarantees received by the Sub-fund will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider.
- it should be capable of being fully enforced by the AIFM for the account of the Sub-fund at any time without reference to or approval from the AIFM.

##### Haircut policy

In accordance with its internal policy relating to the management of the collateral, the AIFM shall determine:

- the required level of collateral; and
- the level of haircut applicable to the assets received as collateral, taking into account in particular the type of assets, the credit standing of the issuers, the maturity, the currency, the liquidity and the price volatility of the assets.

#### Eligible assets

As long as it complies with the conditions mentioned in the paragraph “Eligible collateral” above, the collateral may consist of (i) sovereign OECD bonds; and/or (ii) direct investment in bonds issued or guaranteed by first class issuers offering adequate liquidity or shares listed or dealt on a regulated market of a member state of the European Union or on a stock exchange of a member state of the OECD provided that they are included in a main index.

#### Reinvestment of collateral

The Sub-fund will be able to reinvest the financial guarantees received in accordance with the applicable regulation. The financial guarantees other than cash cannot be sold, reinvested or pledged. The counterparty will be able to reinvest the financial guarantees received from the Sub-fund in accordance with any regulation applicable to the counterparty.

### **4.5 Leverage strategy**

The Sub-fund will not leverage its Investments for the purpose of obtaining funding through such leverage.

Nevertheless, leverage will be embedded in futures, options, swaps, swaptions and other derivative instruments that the AIFM may enter into on behalf of the Sub-fund for hedging purposes. In addition, the contemplated investments (each a **CLO Tranche**) involve significant embedded leverage.

In addition, in order to ensure that the Sub-fund has funds available to meet its obligations on any day under the hedging strategies that it may use (such as, without limitation, payments of upfront premiums and margin calls related to such hedging strategies, etc.), the Sub-fund may enter into contractual settlement services agreements or liquidity facility agreements (each such agreement a **Liquidity Facility Agreement**) with the Depositary or other liquidity facility providers (each a **Liquidity Provider**) pursuant to which the Liquidity Provider will agree to make funds available to the Sub-fund (the **Liquidity Draw-Downs**).

#### Further Restrictions

Without prejudice of the foregoing, the Leverage is controlled and shall not exceed (as a ratio of exposure of the Sub-fund and its NAV) two hundred per cent (200%) when using the commitment method and five hundred per cent (500%) when using the gross method.

The Sub-fund’s exposure is calculated by the AIFM, as the case may be, in accordance with two cumulative methods: the “commitment method”, as set-out by article 8 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012 and the “gross method” as set-out by article 7 of Commission Delegated Regulation (EU) No.231/2013 of 19 December 2012. The gross method gives the overall exposure of the Sub-fund whereas the commitment method gives insight in the hedging and netting techniques used by the AIFM.

#### 4.6 Hedging strategy

While the objective of the Sub-fund is to be exposed to, and not to hedge, credit risk, the AIFM believes that under certain market circumstances, obtaining protection against certain financial risks of the portfolio, including credit risk, could help in achieving the Investment Objective. The AIFM believes that it possesses both the quantitative capability and the in-depth understanding of CLOs to implement hedging proxies.

The AIFM has used hedging proxies (estimates generated through models in order to mimic as close as possible the relevant risks) on large and complex portfolios through a wide variety of market environments, especially in connection with interest rate or currency risks. The AIFM intends to enter into hedging transactions with respect to certain risks of the assets of the Sub-fund which may include credit, interest rate and currency risks. The AIFM will not reuse collateral or guarantee that could be granted under any leveraging arrangement.

Although the AIFM may attempt to hedge certain risks, as described above, the hedging proxies that the AIFM might put in place do not eliminate these risks. For the avoidance of doubt, the AIFM has no obligation to hedge any risks. In addition, payments by the Sub-fund under the hedges may significantly reduce the Sub-fund's Net Asset Value and/or the distributions by the Sub-fund to Unitholders. There can be no guarantee that instruments suitable for hedging will be available at the time or on the terms that the AIFM wishes to enter into them or will be able to be liquidated when the AIFM wishes to do so.

The AIFM is authorised to cause the Sub-fund to enter into currency hedge agreements and other hedge agreements (the **Hedging Agreements**) with counterparties (each, a **Hedge Counterparty**) generally to hedge currency risk; they may also be used to hedge credit risk and interest rate risk to which the Sub-fund is exposed under any Investment. Hedging Agreements may be in the form of "over-the-counter" or traded on exchange options, swaps, swaptions or credit default swaps (under which the AIFM may buy credit protection on single name exposures or indexes).

If a class of Units is denominated in another currency than the Base Currency, the AIFM is authorised to enter for the Sub-fund into currency hedge agreements to hedge currency risk for such class against the Base Currency. The hedging costs and expenses will be paid out of the Sub-fund's assets and will be solely borne by the relevant non-Base Currency class of Units.

#### 4.7 Application of the Risk Retention Requirements

Article 17 of the AIFMD introduced risk retention and due diligence requirements (the **Risk Retention Requirements**) in respect of alternative investment fund managers that are required to become authorised under the AIFMD.

The Sub-fund will be subject to the Risk Retention Requirements. As a consequence, the originator, sponsor (including the relevant CLO Managers) or original lender (if any) of the CLO Tranches comprised within the Sub-fund's portfolio may retain a material net economic

interest in the relevant CLO transactions. Notwithstanding the above, the Risk Retention Requirements would not be applicable to CLO Tranches issued before 1<sup>st</sup> January 2011 to the extent new underlying exposures under those CLO Tranches are not added or substituted after 31 December 2014.

## **5 DISTRIBUTORS**

The AIFM may enter into distribution agreements with entities (**Distributors**) in order to provide distribution services in respect of the Sub-fund (each, a **Distribution Agreement**). Pursuant to such a Distribution Agreement, a Distributor may receive a distribution fee payable by the Management Company or the AIFM; such distribution fee will be payable out of the Management Fee and/or the Performance Fee payable by the Sub-fund to the Management Company.

Any such distribution fee shall not exceed the sum of the Management Fee and the Performance Fee payable by the Sub-fund to the Management Company. Upon written request, details of the relevant distribution fee will be made available to Unitholders justifying contractual relationships with the relevant Distributor.

## **6 INVESTMENT PROCESS AND PORTFOLIO MANAGEMENT**

### **6.1 Investment Process and Portfolio Management**

Each portfolio managed by the Securitized & Structured Assets Team of the AIFM (the **Securitized & Structured Assets Team**) is under the responsibility of a nominated portfolio manager and also a nominated back-up portfolio manager. In managing investment portfolios, the Securitized & Structured Assets Team generally uses a four-step investment process and may employ it, when applicable, in managing the Sub-fund. Although this four-step process is currently used, it may change over time.

#### **6.1.1 *Portfolio construction***

The first step is the portfolio construction, which involves a review of the overall macro-economic and credit outlook in each region based on internal and external research and the expertise of the Securitized & Structured Assets Team. The goal is to achieve a recommended allocation range and investment parameters for different types of structured credit investments while identifying concerns to be monitored and hedging proxies to be applied.

#### **6.1.2 *Sourcing of CLO opportunities***

The second step is the sourcing of specific CLO opportunities, both on the primary and secondary market. The three main sources are investment banks and third-party brokers, fellow CLO investors and CLO managers. The Securitized & Structured Assets Team maintains a wide network of direct long-term relationships with these sources.

#### 6.1.3 *Selection of individual CLO and actual decision to invest*

The third step is the selection of individual CLO securities and the actual decision to invest in an individual CLO, using a combination of qualitative and quantitative analysis. For this purpose, the Securitized & Structured Assets Team performs a detailed analysis of the CLO asset portfolio, its manager, its structure and its documentation.

The Sub-fund will target secondary market investments. Such individual secondary market investments in CLO Tranches are identified on the market by dedicated Securitized & Structured Assets Team traders and the information on the investments at offer is sent to portfolio managers, analysts and structurers of the Securitized & Structured Assets Team. One of the analysts reviews the CLO Tranche and sends his review to all Securitized & Structured Assets Team portfolio managers, analysts and structurers. The final investment decision is then made by the portfolio managers for their respective portfolios under management.

This process is embedded in a more global process of the Securitized & Structured Assets Team seeking investments in CLO market pursuant to which individual primary market investments are subject to an initial analysis by a team consisting of (i) one of the nominated portfolio managers with respect to the relevant portfolio and (ii) an investment analyst. The final investment decision is then made during an investment committee to which participate some Securitized & Structured Assets Team's portfolio managers, analysts and structurers, based on the analysis described above. Most of the secondary market CLO Tranches will have been analysed through this review of primary market investments.

This is followed by the allocation across the portfolios managed by the Securitized & Structured Assets Team, as applicable. On a regular basis, all members of the Securitized & Structured Assets Team meet to review all matters pertaining to their investment activity.

#### 6.1.4 ***Portfolio monitoring and asset surveillance***

The fourth step is twofold: portfolio monitoring and individual asset surveillance. The monitoring of the Securitized & Structured Assets Team's portfolio involves at least one quarterly reassessment by the senior portfolio managers of the investment philosophy applied in the portfolio construction. This re-assessment may result in proposed adjustments to the recommended asset class allocation ranges and investment parameters, which could further result in a rebalancing of the portfolio through disposal of certain assets, including disposal of certain performing securities. The surveillance of individual assets is carried out on an ongoing basis, usually by the investment analyst involved in its initial selection, along with other transactions managed by the same manager. Certain individual assets (if they present particular issues detected by the credit analysts and thus become assets under watch) will be reviewed, at least on a monthly basis, by the credit analysts. This review involves a detailed review of the monthly portfolio reports published by the relevant CLO trustee or administrator (as the case may be). If necessary, the Securitized & Structured Assets Team contacts the CLO manager to discuss the reasons or the rationale behind perceived changes. Explanations given by the CLO manager are then compared



with the views and insights provided by other sources of information (such as CLO managers from the AIFM, fellow CLO investor relationships and other investment banks).

With a wide range of risk exposures, CLOs are generally acknowledged to be complex investments. Investing in such securities requires the ability to identify and quantify many of these risks. The AIFM appreciates the critical role that analytical systems play in managing complex portfolios. The Securitized & Structured Assets Team has, in connection with its prior business, allocated, and will continue to allocate in connection with the management of the Sub-fund, a portion of their time and resources to the development of valuation and hedging models.

The Securitized & Structured Assets Team has a data system through which managed funds and CLOs are modelled and monitored. The underlying investments of these funds and CLOs are modelled and, besides general identification information (including invested amount, principal amount, purchase price, date of operation, collateral manager, arranger, etc.) detailed information on the collateral portfolio is provided and updated for each such investment out of the relevant trustees' reports. Each CLO's priority of payment is externally modelled through an external pricing data base. When further analysis is required, the priority of payments is implemented in the system. For CLOs, the Securitized & Structured Assets Team is able to independently perform stress scenarios and performance anticipations and thus to price a CLO. The Securitized & Structured Assets Team's systems provide data evaluation over all of the investments it manages and offer a look through analysis of the CLOs and funds managed by the Securitized & Structured Assets Team under relevant quantitative scenarios.

The four-step investment process described above, and in particular the third and fourth steps, will be tailored and adjusted by the Securitized & Structured Assets Team to address the characteristics of the Sub-fund's portfolio and to adapt it to the Investment Strategy and Investment Restrictions described herein. See Sub-Section 4.3.

## **7 REPORTING AND UNITHOLDERS' INFORMATION**

The Management Company or the AIFM shall distribute via its Administrative Agent within 10 Business Days after the end of each calendar month to Unitholders who was a Unitholder during such calendar month, the following documents:

- (i) the unaudited Net Asset Value of the Sub-fund and the unaudited Net Asset Value per Unit of each Class as at the end of the period concerned; and
- (ii) the number of Units held, as at the end of the period concerned.

Upon request from an Investor, the Management Company or the AIFM will provide the total number of Units outstanding as at the end of the period concerned.

The AIFM may prepare and distribute to each Unitholder, who was a Unitholder at the end of such calendar quarter a letter generally discussing the results of the calendar quarter just ended and the market overview.

Other than the annual report, the AIFM may periodically prepare a status report on the Sub-fund's investments and activities during the applicable period. The AIFM may establish such further reports as deemed necessary or useful.

The Administrative Agent shall prepare within six (6) months after the end of each Financial Year the following documents, which the Management Company will make available to Investors upon request:

- (i) audited financial statements of the Sub-fund for the relevant Financial Year, prepared in accordance with the principles laid down in section 18.2 of the Issuing Document, which include:
  - an audited balance sheet and income statement; and
  - a summary of NAV of the Sub-fund, NAV per Unit of each Class and the number of Units of each Class outstanding as at the end of the Financial Year; and
- (ii) status report of the Sub-fund's investment activities during such Financial Year, including summary descriptions of investments made and disposed of by the Sub-fund.

## **8 ELIGIBLE INVESTORS**

Class A Units and Class B Units of the Sub-fund are exclusively available to Investors residing in any of the countries registered on the list of eligible countries as maintained by the Management Company. The Management Company may add or remove countries from the list of eligible countries in its absolute discretion from time to time. The list of eligible countries shall be available upon request at the Management Company.

An investment in Class A Units or Class B Units of the Sub-fund is suitable only for sophisticated investors who do not require liquidity for their investment and are prepared to hold their Units for an extended period of time.

## **9 TERM**

The Sub-fund shall be established for an unlimited duration from the Initial Closing, it is being understood that the Management Company shall have absolute discretion to terminate and wind-up the Sub-fund at any earlier date.

## **10 SUBSCRIPTION AND ISSUE OF UNITS**

The Management Company may issue different Classes in the Sub-fund as appropriate in its sole and absolute discretion. These Classes will carry different rights and obligations as described in this Section 10.

The Management Company may issue each Unit Sub-Class in different Series, each Series corresponding to different fee schedule (in terms of Management Company Fee and

Performance Fee) applicable to the relevant Investors. Series will be numbered from 1 to 100.

## **10.1 Classes and subscription process**

### **10.1.1 Classes**

There will be two classes of Units in the Sub-fund being Class A Units and Class B Units.

There will be fourteen sub-classes of Units within the Class A Units and Class B Units:

- (i) Class A-1 USD (Capitalisation) Units;
- (ii) Class A-2 EUR (Capitalisation) Units;
- (iii) Class A-3 EUR Hedged (Capitalisation) Units;
- (iv) Class A-4 GBP (Capitalisation) Units;
- (v) Class A-5 GBP Hedged (Capitalisation) Units;
- (vi) Class A-6 CHF (Capitalisation) Units;
- (vii) Class A-7 CHF Hedged (Capitalisation) Units;
- (viii) Class B-1 USD (Distribution) Units;
- (ix) Class B-2 EUR (Distribution) Units;
- (x) Class B-3 EUR Hedged (Distribution) Units;
- (xi) Class B-4 GBP (Distribution) Units;
- (xii) Class B-5 GBP Hedged (Distribution) Units;
- (xiii) Class B-6 CHF (Distribution) Units; and
- (xiv) Class B-7 CHF Hedged (Distribution) Units.

The Management Company reserves the right to issue further classes (and sub-classes) of Units in its sole and absolute discretion; such new classes (or sub-classes) of Units may have different characteristics, including, without limitation, different minimum holding amounts, different Management Fee, different Performance Fee and may be expressed in different currency. This Supplement will accordingly be updated.

#### 10.1.2 ***Capitalisation Units and Distribution Units***

A Capitalisation Unit is a Unit in relation to which interest proceeds derived from CLO Tranches will be capitalised or reinvested and ultimately paid on redemption.

A Distribution Unit is a Unit in relation to which distributions will be made of interest proceeds derived from CLO Tranches during the term of the Unit.

#### 10.1.3 ***Subscription process***

Investors wishing to subscribe for Units in accordance with the procedure described under section 10 of the Issuing Document must deliver a complete Subscription Form to be received by the Administrative Agent during the month at the end of which the Valuation Point taken as the basis of the subscription into the Sub-fund will be made and by no later than 12:00 noon (Luxembourg time) on the day falling five (5) Business Days preceding the relevant Valuation Point. The NAV taken as the basis of such subscription order will be released to Investors within ten (10) Business Days following the relevant Valuation Point.

The Management Company may totally or partially decline an issue of Units if in its opinion: (i) such holding may result in a breach in law, governmental regulation or rule of authorities having jurisdiction over the Sub-fund or the sale of the Units; (ii) if as a result of such issue the Sub-fund may become exposed to disadvantages of a tax, legal or financial nature that it would not otherwise have incurred; or (iii) if it estimates, in its sole and absolute discretion, that it would not be in a position to invest the monies deriving from any additional subscription.

Subscriptions may be accepted only if they are placed in respect of an amount to be subscribed; no subscription for a specific number of Units will be accepted.

#### 10.1.4 ***Issue Price per Unit***

Each Class A-1 USD (Capitalisation) Unit and Class B-1 USD (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand USD (USD 1,000.00).

Each Class A-2 EUR (Capitalisation) Unit, Class A-3 EUR Hedged (Capitalisation) Unit, Class B-2 EUR (Distribution) Unit and Class B-3 EUR Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand EUR (EUR 1,000.00).

Each Class A-4 GBP (Capitalisation) Unit, Class A-5 GBP Hedged (Capitalisation) Unit, Class B-4 GBP (Distribution) Unit and Class B-5 GBP Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand GBP (GBP 1,000.00).

Each Class A-6 CHF (Capitalisation) Unit, Class A-7 CHF Hedged (Capitalisation) Unit, Class B-6 CHF (Distribution) Unit and Class B-7 CHF Hedged (Distribution) Unit issued on the Initial Closing will be issued for an Issue Price of one thousand CHF (CHF 1,000.00).

The Issue Price of each Class A Unit and each Class B Unit to be issued after the Initial Closing will correspond to the NAV per Unit as applicable as at the relevant Valuation Point in respect of which the application for subscription in the Sub-fund is received by the Administrative Agent. The NAV taken as the basis of the settlement of the subscription order will be the one determined on the Valuation Point falling on the last Business Day of the month during which the complete Subscription Agreement in respect of such order is received (such NAV being released to Unitholders within ten (10) Business Days from the relevant Valuation Point). Such NAV is therefore not known when the order is placed (forward pricing).

With respect to the issue of Units, fractions of Units rounded mathematically to the nearest three (3) decimal places will be issued, as the case may require.

The issue price of Units will be expressed up to two (2) decimal places.

## 10.2 Settlement

Settlement of payment in cleared funds for Units shall be made for receipt by the Administrative Agent by not later than the day falling two (2) Business Days before the relevant Valuation Point; all payments to be made in the relevant Unit class currency.

Where payment is not received in due time, the Administrative Agent, acting upon the direction of the Management Company, may cancel the subscription.

## 11 TRANSFER OF UNITS

An Investor may sell, assign, exchange, pledge, encumber, hypothecate or otherwise transfer or dispose of all or any part of its interest in the Sub-fund (together a **Transfer**), after prior written approval of the Management Company.

The Management Company may, in particular but without limitation, not approve a Transfer if in the opinion of the Management Company: (i) such subsequent holding may result in a breach in law, governmental regulation or rules of authorities having jurisdiction over the Sub-fund; or (ii) as a result of such subsequent holding, the Sub-fund may become exposed to disadvantages of a tax, of legal or financial nature that it would not otherwise have incurred. A transferee must agree to be bound by the terms of the Fund Documents.

Notwithstanding the above, any Units that are directly or indirectly held by a German insurance company or a German pension fund (including, for the avoidance of doubt, "*Pensionskassen*", "*Pensionsfonds*" and "*Versorgungswerke*") (**German Regulated Investor**) and that are part of their committed assets ("*Sicherungsvermögen*", the **Committed Assets**) as defined in Section 125 of the German Insurance Supervisory Act, as may be amended from time to time ("*Versicherungsaufsichtsgesetz*") are freely transferable and such transfer will not require the approval of the Management Company or any other Unitholder provided the transferee is either (i) an institutional investor or financial intermediary, including, among others, insurance companies, social insurance carriers, institutions, pension funds, investment funds, foundations and credit institutions or

(ii) any other investor which is a Well-Informed investor, is financially sufficiently sound (investment grade rating) or provides adequate security, in each case unless such transfer would result in a violation of any applicable law or regulation, amongst others any law relating to anti-money laundering and “*Know Your Customer*” regulations and policies, or any material adverse regulatory, tax consequences for the Sub-fund or other legal consequences and executes the necessary documentation. Upon the Transfer of Units that are directly or indirectly held by a Unitholder that is a German Regulated Investor, the transferee shall accept and become solely responsible for all liabilities and obligations relating to the Units held and the transferor shall be released from and shall have no further liability of any nature (not even a secondary or joint and several liability) in relation to the Units it has transferred under this Supplement or in respect of the Sub-fund.

To the extent that and so long as Units are part of a German Regulated Investor's Committed Asset, and such German Regulated Investor is either in accordance with Section 128 of the German Insurance Supervisory Act under the legal obligation to appoint a trustee (“*Treuhänder*”) or is subject to such obligation on a voluntary basis, Units shall not be disposed of without the prior written consent of the relevant Unitholder's trustee or such trustee's authorized representative.

Any transferee must qualify as a Well-Informed Investor and give in writing the same representations and warranties to the Sub-fund as contained in the Subscription Agreement.

In order to facilitate such Transfer, the Management Company may, in its entire discretion, and without prejudice of the rights of the existing Investors and in particular in compliance with the provisions of the Section below (*Redemption of Units*), issue new Units.

## **12 REDEMPTION OF UNITS**

### **12.1 Redemption at Investors' Option**

Units are redeemable on a monthly basis at the option of the Investor. An Investor wishing to redeem part or all of his Units shall specify in a Redemption Notice to be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling no less than ten (10) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point. The NAV taken as the basis of the settlement of the redemption order is the one determined on the Valuation Point immediately preceding the relevant Redemption Day (and as such is not known when the order is placed). The payment of the Redemption Price shall be made within three (3) Business Days after the Redemption Day. Payment will be made by wire transfer.

Redemption is subject to a maximum Redemption Fee of three (3) per cent of the pro rata NAV. Any such Redemption Fee will be payable into the account of the Sub-fund. Redemption Fee will be charged if and when selling assets to satisfy redemption requests appears as being detrimental to the remaining Investors as determined by the Management Company in its sole and absolute discretion.

Redemption is subject to a limit of ten per cent (10%) of the NAV for each Valuation Point (the **Redemption Threshold**). The Management Company may in its absolute discretion refuse to redeem any Units in excess of this Redemption Threshold. In such case, the Administrative Agent will notify the Unitholder who has requested the redemption within 2 Business Days after the latest date on which a completed Redemption Notice must be received by the Administrative Agent. Redemption will be made on a pro rata basis and the Administrative Agent will confirm to each Unitholder (which has submitted a Redemption Request) the amount to be redeemed on the relevant Valuation Point in respect of such Unitholder. Any amount requested to be redeemed over the Redemption Threshold on any Valuation Point can then only be redeemed if the relevant Unitholder submits a new Redemption Request for the following Valuation Point and such new Redemption Request will be subject to the Redemption Threshold in effect at that time.

The Management Company can decide, in its sole and absolute discretion, to delay any redemption request or to stop the NAV release in case of market disruption.

## **12.2 Compulsory Redemptions**

The Management Company may in its absolute discretion compulsorily redeem all or part of the Units held by any Unitholder (a **Defaulting Unitholder**):

- if such Unitholder has materially violated any provisions of the Fund Documents and Subscription Agreement binding upon it;
- in any other circumstances where the Management Company reasonably determines that such Unitholder's continued ownership would either be materially prejudicial to the Sub-fund or would result in the Sub-fund and/or the respective Unitholder being in non-compliance with laws, regulations and investment guidelines applicable to it; and/or
- for any other reason.

Notwithstanding the above, if and so long as a Defaulting Unitholder is a German Regulated Investor, the Management Company shall not reduce by way of mandatory redemption the Units held by such Unitholder by an amount of more than 20% of the Market Price Attainable (as defined in this clause), such Units being forfeited by the Defaulting Unitholder and retained by the Sub-fund or cause a forced sale of the Defaulting Unitholder's Units for no consideration or at a reduced price lower than 80% of the Market Price Attainable. The Market Price Attainable shall be the price at which non-defaulting investors or new investors would be willing to purchase the Units of the investor (as a Defaulting Unitholder) according to a written offer to the Management Company, whereas it must be ensured that all non-Defaulting Unitholders have been provided with the possibility to make such an offer.

## **12.3 In Specie Redemption**

The Management Company generally expects to distribute cash to the Investors in satisfaction of redemption requests, provided, however, that under certain circumstances

(as determined by the Management Company in its absolute discretion) it may satisfy redemption requests of Investors by a redemption in-kind of all or part of their Units. In these circumstances, an Investor may receive in-kind distributions, if such Investor represented in writing to the Sub-fund prior to such distribution that it satisfies the minimum qualifications to be an investor in such securities and instruments under their governing instruments.

At the Unitholder's request, the Management Company may elect to pay redemption proceeds in kind, having due regard to all applicable laws and regulations and to all Unitholders' interest. In such case of payment in kind, the independent auditor of the Fund shall deliver, if applicable, an audit report in accordance with applicable laws. Any costs incurred in connection with a redemption in kind of securities shall be borne by the relevant Unitholder.

### **13 CONVERSION OF UNITS**

If a Unitholder holds Class B Units denominated in one currency, such Unitholder may apply for the relevant Class B Units to be allotted to the corresponding Class A Units and convert his existing Class B Units into Class A Units. In any such conversion, a conversion fee may be charged by the Management Company in its absolute discretion for the benefit of the Sub-fund.

If a Unitholder holds Class A Units denominated in one currency, such Unitholder may apply for the relevant Class A Units to be allotted to the corresponding Class B Units and convert his existing Class A Units into Class B Units.

In any such conversions, a conversion fee may be charged by the Management Company in its absolute discretion for the benefit of the Sub-fund. Such conversion fee shall not exceed three per cent (3%) of the pro rata NAV of the Units to be converted.

The Management Company may decide, in its sole and absolute discretion, to allow additional conversions of Units and may, in its sole and absolute discretion, apply a conversion fee. Such conversion fee shall not exceed three per cent (3%) of the pro rata NAV of the Units sought to be converted.

A conversion of Units of one Class into another Class will be treated as a redemption of Units of the original Class and a simultaneous subscription of Units in the corresponding Class. A converting Investor may therefore realise a taxable gain or loss in connection with the conversion under the laws of the country of the Investor's citizenship, residence or domicile.

A duly completed conversion request form or other written notification acceptable to the Administrative Agent together with any other documentation that may be requested by the Administrative Agent from time to time must be received by the Administrative Agent no later than 12:00 noon (Luxembourg time) on the day falling two (2) Business Days before the relevant Valuation Point in order to be taken into account on such Valuation Point.



Units will not be converted in circumstances where the calculation of the Net Asset Value is suspended by the AIFM.

#### **14 BASE CURRENCY**

The NAV per Unit of each Sub-Class of the Sub-fund shall be expressed in the base currency of the relevant Sub-Class.

#### **15 VALUATION AND NET ASSET VALUE CALCULATION**

The NAV per Unit of the Sub-fund shall be expressed in the Base Currency of the relevant class of Units. The valuation and calculation of the Net Asset Value per Unit will be effected as provided for in the Fund Documents.

##### **CLO Tranches Valuation**

In terms of valuation of the assets, the AIFM has opted to retain a third party price provider (the **Price Provider**) which will provide valuation (the Indicative Value) on the assets. The Price Provider will apply a valuation methodology based on market and structural data relating to the CLO investment universe. The pricing received will immediately be subject to counter valuation by the AIFM, thereby ensuring a reliable valuation of the assets at all times. The AIFM will have the option of replacing the Price Provider by another source at a later stage if need be.

The monthly reports provided to Unitholders will not disclose the Indicative Value of individual CLOs; only the Indicative Value of the aggregate of all CLOs comprised within the Sub-fund's portfolio will be disclosed in this monthly report.

##### **Calculation of Net Asset Value**

The AIFM assures that a proper and independent valuation of the assets of the Sub-fund is performed in accordance with article 17 of the AIFM Law.

There is no assurance that the determination of the Net Asset Value of the Sub-fund reflects the actual sale prices of the Sub-fund's Investments. If sales of Investments result in fewer proceeds than estimated, Unitholders will see the Net Asset Value of the Sub-fund reduced. These Investments are potentially illiquid. Hence there may not exist any current market valuation. The AIFM will attempt to have valuation supplied by a third party for each Investment on a monthly basis. Such valuations may be volatile and inconsistent, and may vary a lot from one month end to another.

The valuations received by the Sub-fund from arranging banks or brokers may typically be estimates only, subject to revision through the end of each Investment annual audit. Revisions to the Sub-fund's gain and loss calculations will be an ongoing process, and no appreciation or depreciation figure can be considered final until the Sub-fund's annual audit is completed.

## **16 COSTS, FEES AND EXPENSES**

### **16.1 Management Fee**

The Management Company shall be paid by the Sub-fund, on behalf of all Classes of Units, a Management Fee of up to one per cent (1.0%) annually, calculated monthly on the Sub-fund Net Asset Value in relation to certain Classes of Units, Sub-Classes of Units and/or Series (as applicable), as of the relevant month end and payable quarterly in arrears, as determined by the AIFM. In consideration for the performance of its duties as AIFM, the AIFM will be entitled to receive from the Management Company a portion of the Management Fee and shall thus be at no additional cost to the Sub-Fund.

In each case, the day count fraction to be used with respect to the calculation of the Management Fees shall be the actual number of days elapsed during the relevant calculation period divided by the actual number of days elapsed during the relevant Financial Year.

The Sub-fund may purchase investment instruments issued by investment vehicles the investment portfolios of which are managed by the AIFM or its Affiliates and in relation to which the AIFM or its Affiliates earn separate market standard compensation. The Management Fee shall be waived in relation to such investments.

### **16.2 Performance Fee**

The Management Company is entitled to a performance fee (a **Performance Fee**), which will be calculated in respect of each reference period (each a **Reference Period**).

The first Reference Period starts on the Initial Closing (inclusive) and ends on 31 December 2016. Each subsequent Reference Period corresponds to the Sub-fund's accounting year and shall commence on 1 January and end on (i) 31 December of each year (if the Sub-fund has not been liquidated as of this date) or (ii) the date on which the Sub-fund is liquidated.

The Management Company may decide, in its sole and absolute discretion, to partially or totally waive the application of the Performance Fee in relation to certain Classes of Units, Sub-Classes of Units and/or Series, as applicable.

On any Valuation Point, if the Out-Performance (as defined below) is positive, a Performance Fee provision of up to twenty per cent (20 %) of the Out-Performance is retained in the Sub-fund with respect to Class A Units and Class B Units. If the Out-Performance is positive but lower than that of the previous Valuation Point, this provision is adjusted through write-backs up to the total of existing provisions.

The **Out-Performance** as of any Valuation Point is equal to the difference between the Sub-fund's Net Asset Value, net of all fees and costs but accrued Performance Fee, and the highest value between the "Benchmark Fund" and the "High Water Mark Fund". In the case where the Benchmark Fund value is inferior to the High Water Mark Fund value, the Out-

Performance calculation will be based on the difference between the Fund's Net Asset Value and the High Water Mark Fund value. The "Benchmark Fund" performance is equal to the performance of the "Out-Performance hurdle". The "High Water Mark Fund" reflects the highest level reached by the Sub-fund's Net Asset Value at which a Performance Fee was paid.

Moreover, the following has to be replicated in the "Benchmark Fund" and in the "High Water Mark Fund":

- the same variation of subscription as the Sub-fund;
- in case of redemption or distribution payment, the "Benchmark Fund" and "High Water Mark Fund" respective values are reduced according to the following ratio: amount redeemed or distributed divided by the total Net Asset Value of the Sub-fund.

At the end of the Reference Period, provided that a Performance Fee provision is retained, Performance Fee are rightly kept by the Management Company. The "Benchmark Fund" and "High Water Mark fund" value are adjusted to the Sub-fund's Net Asset Value for the following Reference Period. If no provision remains at the end of the Reference Period, no Performance Fee is kept by the Management Company, the value of the "High Water Mark Fund" is kept unchanged and the "Benchmark Fund" value is adjusted to the Fund's Net Asset Value for the following Reference Period. Accordingly, the High Water Mark Fund value remains equal to the Fund's Net Asset Value as recorded at the date of the last payment of Performance Fee, or at the initial Fund's Net Asset Value if no Performance Fee has ever been paid.

From January 1<sup>st</sup>, 2023, included, the Out-Performance hurdle for comparison is:

- (i) either
  - the SOFR Compound Rate for Classes of Units denominated in USD;
  - the 3-month Euro Interbank Offered Rate (Euribor) rate for Classes of Units denominated in EUR;
  - the SARON 3-month Compound Rate for Classes of Units denominated in CHF;
  - the SONIA 3-month Compound Rate for Classes of Units denominated in GBP;
- (ii) + an amount expressed as a percentage, which is applicable to the relevant Class, Sub-Class and/or Series (as applicable), subject to a minimum of 4 %, as determined by the Management Company.

**Investors must be aware that under certain circumstances, a global Out-Performance of the Sub-fund would imply a Performance Fee payment to the Management**

**Company while individual performance of some investors, depending on the point of time they subscribed to the Units, may lag below the Out-Performance hurdle.**

In case of redemption of Units or distribution payments, a proportion of the Performance Fee provision will be paid to the Management Company at the time of such redemption or distribution payment (as applicable), corresponding to (i) the ratio of the amount of Units redeemed divided by the total number of Units of the relevant Class in case of a redemption and/or (ii) the ratio of the amount distributed divided by the NAV of the Sub-fund, in case of distribution payments.

A Performance Fee, once paid, will not be returned to the Sub-fund, irrespective of subsequent losses.

### **16.3 Subscription Fee**

On subscription for Units by an Investor, the Management Company may charge a Subscription Fee at its own discretion. The Subscription Fee is a fee of no more than one hundred and fifty basis points (1.50%) of the Subscription Amount which may be added to the Issue Price per Class A Unit or Class B Unit in the Management Company's absolute discretion. The Management Company, in its absolute discretion, may differentiate the Subscription Fee between Classes, Sub-Classes of Units and Series but all Investors subscribing for the same Class, Sub-Class and/or Series (as applicable) of Units will pay the same Subscription Fee. The Subscription Fee will be paid to the benefit of the Sub-fund.

### **16.4 Formation costs**

**The expenses incurred by the Management Company in relation to the launch of the Sub-fund will be borne by and payable out of the assets of the Sub-fund and will be amortized on a straight line basis over a period of up to five (5) years from the launch date of the Sub-fund at the entire discretion of the Management Company.**

## **17 PUBLICATION OF THE NET ASSET VALUE**

The unaudited NAV per Unit as well as the Issue Price are available at the registered office of the Management Company on the day falling no later than ten (10) Business Days after each Valuation Point.

## **18 DISTRIBUTIONS**

Regarding the distribution Units, the Management Company envisages making periodic distributions during the life of the Sub-fund, as determined in its absolute discretion, subject to Sub-Sub-Section 10.1.1..

Distributions, if any, shall be made in cash, subject to Sub-Section 12.3.

## **19 DISAPPLICATION OF CERTAIN PROVISIONS OF THE ISSUING DOCUMENT**

### **19.1 Consolidation of Sub-funds**

Notwithstanding any other provision of the Issuing Document to the contrary, the Management Company may not resolve to amalgamate the Sub-fund with another sub-fund of the Fund.

### **19.2 Co-Management and Pooling**

Notwithstanding any other provision of the Issuing Document to the contrary, the AIFM may not rely on, nor enforce, the provisions set forth by section 17 of the Issuing Document relating to CO-MANAGEMENT AND POOLING.

## **20 SIDE LETTERS**

The Management Company and the AIFM may from time to time enter into letter agreements or other similar agreements (collectively, **Side Letters**) on behalf of the Sub-fund with one or more Investors individually to clarify, outline or supplement the terms of the Issuing Document and Subscription Agreement applying to their Subscription Amount or holdings in the Sub-fund.

Without prejudice to Luxembourg law and equitable treatment of Unitholders' obligations, Side Letters may result in some Investors having more or different information than others. Similarly, Subscription Agreements may vary from one investor to another.

## **21 PROHIBITION OF SET OFF RIGHTS**

As regards German Regulated Investors holding Units, either directly or via a dedicated fund, as part of their Committed Assets, the Sub-fund and / or the Management Company waives any right to set-off against any claims of these Investors, and waives to exercise any retention, lien or similar rights.

## **22 RISKS RELATED TO THE SUB-FUND**

### **22.1 General**

**AN INVESTMENT IN THE SUB-FUND INVOLVES CERTAIN RISK FACTORS AND CONSIDERATIONS RELATING TO THE SUB-FUND'S STRUCTURE AND INVESTMENT OBJECTIVE WHICH PROSPECTIVE INVESTORS SHOULD EVALUATE BEFORE MAKING A DECISION TO INVEST IN THE SUB-FUND. NO ASSURANCE CAN BE GIVEN THAT THE SUB-FUND WILL SUCCEED IN MEETING ITS INVESTMENT OBJECTIVE OR THAT THERE WILL BE ANY RETURN ON CAPITAL. MOREOVER, PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.**

Potential investors should take into account the fact that the expectations discussed in this Supplement regarding potential returns for investors relate to returns once the aggregate Subscription Amount is fully invested.

Before making any investment decision with respect to the Units, any prospective investors should consult their professional advisors and carefully review and consider such an investment decision in light of the risk factors included below. The following is a brief description of certain factors, which should be considered along with other matters discussed elsewhere in the Issuing Document. The following does, however, not purport to be a comprehensive summary of all the risks associated with an investment in the Sub-fund generally. Rather, the following are only certain particular risks to which the Sub-fund is subject and that the Sub-fund wishes to encourage prospective investors to discuss in detail with their professional advisors.

This Section contains an outline description of certain relevant considerations, including a number of categories of risk that the AIFM believes may arise from any investment in the Sub-fund.

INVESTMENT IN UNITS MAY INVOLVE SIGNIFICANT RISKS AND REQUIRES THE CONSIDERATION OF COMPLEX MATTERS.

Prospective investors must possess the technical and financial means to understand, investigate, evaluate and assume these risks.

The outline description below, however, is neither detailed nor exhaustive and, in making a decision to invest in the Sub-fund, prospective investors must, in consultation with their own legal, tax, financial and other professional advisers and without reliance on the Management Company, the AIFM, the Sub-fund, the Distributor and their respective Affiliates and advisers, identify all possible considerations and risks. These may include those risks arising from the nature and structure of the Sub-fund and its Investments, and risks associated with the particular legal, tax, financial or other circumstances of each Investor, including, without limitation, the various contracts referred to in this Supplement, its Investment Strategy and Investment Policy, the relevant laws of Luxembourg and all other jurisdictions concerned and any other relevant matters.

#### 22.1.1 *Suitability Risk*

Prospective purchasers of the Units should ensure that they understand the nature of such Units and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Units and that they consider the suitability of such Units as an investment in the light of their own circumstances and financial condition. An investment in the Sub-fund should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

None of the Management Company, the AIFM or any of their respective Affiliates makes any representation as to the proper characterization of the Units for investment or other purposes, as to the ability of particular investors to purchase Units for investment or other purposes under applicable investment restrictions or policies which may be applicable to them or as to the accounting, capital, tax and other regulatory or legal consequences of ownership of the Units. All institutions the activities of which are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Units are subject to any investment, capital or other restrictions.

#### 22.1.2 *Redemption Risk and NAV Freeze*

**Investors may redeem Units in accordance with the terms of the Supplement. Large redemptions of Units might result in the Sub-fund being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets. In addition, a significant redemption of Units may require the Sub-fund to realize Investments at values which are lower than the anticipated market values of such Investments. This may cause a temporary imbalance in the Sub-fund's portfolio, which may adversely affect the remaining Investors.**

The Management Company is empowered to charge a Redemption Fee of up to three (3) per cent of the pro rata NAV of the Units held by the Investor seeking Redemption. Also, the maximum number of Units which may be redeemed on each Valuation Point is limited to ten per cent (10 %) of the NAV for each Valuation Point.

The AIFM may also, in consultation with the AIFM, temporarily delay the determination of the Net Asset Value per Unit of the Sub-fund and redemption of its Units under specific circumstances. An investment in the Sub-fund is suitable only for sophisticated investors who do not require liquidity for their investment and are prepared to hold their Units and/or investment for an extended period of time. The Management Company may also in consultation with the AIFM redeem all or part of the Units held by any Unitholder.

Cash, or under certain circumstances securities, will be distributed to redeeming Investors, as determined by the Management Company.

### 22.2 **Investment Risks**

It should be remembered that the price of the Units can go down as well as up and that, on the redemption of their Units, Investors may not receive the amount that they originally invested.

The return on the Sub-fund's assets will primarily be dependent upon the availability and market price at which they can be purchased at the time investments are made.

A CLO is a particular type of structured credit investment: it is a structured credit investment security with respect to which the related underlying portfolio of assets consists generally of

leveraged loans (including “middle market” loans) to sub-Investment Grade companies and/or credit default swaps that reference such assets.

A CLO Issuer's portfolio investments embeds inherent risks, including, among other things, credit, prepayment, liquidity and interest rate risk, the financial condition of the Underlying Obligors, general economic conditions, market price volatility, the condition of certain financial markets, political events and developments or trends in any particular industry.

#### 22.2.1 *Credit Risks of Projected Investments*

The Sub-fund will invest in debt of CLOs which are structured credit products with exposure to a portfolio of leveraged loans and, as such, to leveraged loans risk including default risk, prepayment risk, recovery risk. The Sub-fund will invest in tranches of CLOs. CLO notes investments are leveraged exposure to the loan assets in the CLO and can be rated below Investment Grade. These exposures carry a higher probability of default than the average portfolio rating would suggest.

The Sub-fund may have exposure to higher yielding (and, therefore, higher risk) debt securities. Such securities may be below Investment Grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the CLO Issuer's inability to meet timely interest and principal payments. The market prices of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. It is likely that a major economic recession or an environment characterised by a shortage of liquidity could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn or liquidity squeeze could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

#### 22.2.2 *Limited Recourse in case of Default*

As a holder of CLO Tranches, the Sub-fund will generally have limited recourses against the CLO Issuer. Such Investments almost always represent highly leveraged investments in the CLO's asset pool, which supports first the claims of higher ranking tranches of debt. The Investments can rank junior to senior debts such that no payments may be made on Investments until all payments on more senior debts have been paid in full. Such Investments have substantially greater credit and liquidity risk than more highly rated debt obligations.

In the event of default by an Underlying Obligor, holders of such Underlying Obligor's more senior debt will be entitled to payments in priority to the relevant CLO and in turn to the Sub-fund. Senior lenders will typically be entitled to block payments on subordinated loans if there is a senior payment or other default. Some of the Investments may also have structural subordination features that divert payments to more senior classes of debt. This may lead to interruptions in the income stream that the Sub-fund anticipates receiving from its



Investment portfolio, which may lead to the Sub-fund having less income to distribute to Unitholders. Liquidation of the collateral upon any redemption of more senior tranches and/or remedies pursued upon enforcement of the security over such collateral could be adverse to the interest of some investments of the Sub-fund. Although the Sub-fund's assets generally have the benefit of security (or other priority rights), control of the timing and manner of the disposal of such assets upon a default typically may devolve to the holders of the senior class of debt outstanding depending upon the valuation of the Sub-fund's Investments. Mezzanine tranches of CLOs, by way of example, rank junior to any related senior tranches. To the extent that any losses are incurred by a lender in respect of its related Underlying Loans, such losses will be borne first by the holders of the related equity tranches, then by the mezzanine tranches and then by senior tranches. In addition, if an event of default occurs under the applicable indenture, the holders of the most senior tranche of securities generally will be entitled to determine the remedies to be exercised under the indenture. Remedies pursued by such holders could be adverse to the interests of the holders of any related mezzanine tranches, in the case of outstanding senior tranches.

An Investment is generally a limited recourse obligation of the CLO Issuer thereof payable solely from the assets of such CLO Issuer or proceeds therefrom. Consequently, holders of the Investment must rely solely on distributions on the underlying collateral of such Investment or proceeds therefrom for payments in respect of such Investment. If the distributions on the underlying collateral of the Investment are insufficient to make payments on the Investment, no other assets of the relevant Underlying Obligor will be available for payment of such deficiency.

#### **22.2.3 CLO Early Redemption Risk**

CLOs may often contain optional redemptions mechanism pursuant to which the outstanding notes issued by the relevant CLO Issuer may be redeemed at the discretion of the holders of a certain majority of the principal amount outstanding of the subordinated notes.

The exercise of such optional redemption will shorten the average life of the CLO securities.

#### **22.2.4 Diverse risk return profiles**

Eligible investments of the Sub-fund are AAA to B rated CLO debt tranches. Portfolio risk may be invested in CLOs with higher risk returns than the average portfolio risk return profile. The risk of a single investment may significantly differ from the average risk of the portfolio.

#### **22.2.5 Embedded Leverage Risk**

CLO Tranches involve significant leverage. If the Sub-fund retains either the most or one of the most subordinated CLO Tranches, it will hold the most leveraged investment in the CLO.

While the leverage presents opportunities for increasing the Sub-fund's total return, it has the effect of potentially increasing sensitivity to losses and/or credit events. Accordingly, any event which adversely affects the value of an investment in a CLO Tranche would be magnified to the extent such Investment is leveraged.

#### 22.2.6 *Lack of Diversification Risk*

The Sub-fund's portfolio is expected to consist mainly of CLO Tranches and will not be a diversified or balanced portfolio and, as a consequence, the aggregate return of the Sub-fund may be substantially adversely affected by the unfavourable performance of a single Investment. In addition, the diversification of the Sub-fund's Investments could be even further limited to the extent the Sub-fund invests a significant portion of its capital in Investments which may be more or less correlated for a number of potential reasons. The Sub-fund is further expected to have a concentrated exposure to corporate debt (in particular to US industrial and commercial loans). The concentration of Underlying Loans in any one Underlying Obligor would subject the related transaction or the CLO Issuer, and consequently the Sub-fund, to a greater degree of risk with respect to defaults by such Underlying Obligor and the concentration of Underlying Loans in any one industry would subject the related transaction or the CLO Issuer, and consequently the Sub-fund, to a greater degree of risk with respect to economic downturns relating to such industry. Moreover, overlaps in certain Underlying Obligors or industries or CLO Issuers over several or all the Underlying Loans would subject the Sub-fund to a higher degree of risk with respect to defaults by such Underlying Obligors or CLO Issuers and economic downturns relating to such industry.

#### 22.2.7 *Price Volatility Risk*

The prices of assets in which the Sub-fund may invest or to which the Sub-fund may have exposure, including CLO Tranches, may be highly volatile. Price movements are influenced by, among other things: illiquidity in markets, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, U.S. and foreign political events and policies, changes in national and/or international interest rates and rates of inflation, currency devaluations and revaluations, rating agency actions, investor perceptions and market sentiments. None of these factors can be controlled by the AIFM, and no assurance can be given that the recommendation of the AIFM will result in profitable Investments for the Sub-fund.

As Investments may represent a leveraged investment in the CLO portfolio, it is expected that changes in the market value of such Investments will be greater than changes in the market value of the Underlying Loans, which themselves are subject to credit, liquidity, interest rate and other risks. Utilisation of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the CLO will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Underlying Loans. The use of leverage generally magnifies the CLO's opportunities for gain and risk of loss.

#### 22.2.8 *Liquidity Risk*

There can be no assurance that any secondary market or optional redemption will exist or continue for the life of most of the Investments. The lack of an established, liquid secondary market for most of the Investments may have an adverse effect on the market value of such Investments and on the Sub-fund's ability to dispose of them. Such "liquidity risk" could adversely affect the value of the Sub-fund's Investments and may be difficult or impossible to hedge against. As a result, the Sub-fund may not be able to readily dispose of portions of its portfolio without incurring significant losses. The liquidity of all Investments at any point in time will depend on their term and/or on the success of any exit strategy proposed for each Investment. Such strategy could be adversely affected by a variety of factors. There is a risk that the Sub-fund may be unable to realise any realisation strategy proposed for an Investment or other disposal at attractive prices or at the appropriate times or in response to changing market conditions or will otherwise be unable to complete a favourable exit strategy. Losses may be realised before gains on disposals. Prospective investors should therefore be aware that they may be required to bear the financial risk of their investment in Units for an undetermined period of time.

#### 22.2.9 *Leverage and Possible Margin Call Related to Derivatives Use*

Leverage will be embedded in options, swaps, forwards and other derivative instruments that the AIFM may enter on behalf of the Sub-fund.

In general, the anticipated use of derivative transactions for hedging purposes results in certain additional risks to the Sub-fund. For example, should the securities pledged to counterparties to secure the Sub-fund's derivative transactions decline in value, the Sub-fund could be subject to a "margin call", pursuant to which the Sub-fund must either deposit additional funds or securities, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A decline in value of a derivative transaction could also result in a margin call that the Sub-fund must meet. In the event of a sudden drop in the value of the Sub-fund's assets, the Sub-fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

#### 22.2.10 *Risk related to Collateral Management*

Counterparty risk arising from investments in OTC financial derivative instruments is, subject to the applicable regulation, generally mitigated by the transfer or pledge of collateral in favor of the Sub-fund. However, transactions may not be fully collateralized.

If a counterparty defaults, the Sub-fund could realize a loss due, inter alia, to inaccurate pricing or monitoring of the collateral, adverse market movements, deterioration in the credit rating of issuers of the collateral or illiquidity of the market on which the collateral is traded.

The Sub-fund may also incur a loss in reinvesting collateral received, where permitted. Such a loss may arise due to a decline in the value of the investments made.

Where permitted by the investment policy and subject to the applicable regulation, the Sub-fund's reuse of collateral received by it from its OTC derivative activity, within the limits set by applicable regulation, is likely to increase the Sub-fund's leverage and also increase the risks associated with the instruments into which cash collateral is invested, such as market risk, counterparty risk and liquidity risk.

#### *22.2.11 Uncertain Average Life of Investment*

The average life of an Investment may be affected by the financial condition of the Underlying Loan or the CLO Issuer and/or the characteristics of the Underlying Loans, including, without limitation: the existence and frequency of exercise of any optional or mandatory redemption features; the prevailing level of interest rates; the redemption price; and the actual default rate.

#### *22.2.12 Deferred Interest Payment Risk*

Under certain circumstances, cash flows from the collateral of Investments that otherwise would have been paid to the holders of any related more junior tranches (including mezzanine tranches) will be used to redeem or repay the related more senior tranches of those Investments. An auction process may be implemented. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other distributions made to the holders of such more junior tranches, (including mezzanine tranches) which could adversely impact the returns to the holders of such tranches.

#### *22.2.13 Extension Risk*

Although, the average life of each Investment acquired by the Sub-fund is expected to be shorter than the Sub-fund's term, the scheduled maturity date or stated maturity of the underlying assets may be extended. As a result, the Sub-fund's term could extend beyond the indicated term, potentially for several months or years.

#### *22.2.14 Lack of Investment Opportunities*

The volume (both in terms of number and dollar) of deals involving CLO may not be sufficient for the Sub-fund to invest the optimal amount of its assets in such instruments.

#### *22.2.15 Modelling Risk*

In connection with certain Investments for which no external pricing information is available, the AIFM may rely on internal pricing models, using certain modelling and data assumptions. Such valuations may vary from valuations performed by other parties for similar types of securities.

Models are inherently imperfect. Other alternative, credible models or risk parameters may therefore exist, which, if used, could produce results materially different from those produced by the AIFM.

#### 22.2.16 *Performance Risk*

None of the Management Company, the AIFM and their respective Affiliates and advisers can guarantee any level of return to Unitholders or the repayment of Subscription Amount by the Sub-fund. Past performance of other investments managed by the AIFM cannot be taken as an indication of the future performance of the Sub-fund. The nature of and risks associated with the Sub-fund may differ materially from those investments and strategies historically undertaken by the AIFM. There can be no assurance that the AIFM or the persons associated with it or any other entity or person will realise returns comparable to those achieved in the past or generally available in the market. Investment losses may occur, and Investors could lose some or all of their investment.

#### 22.2.17 *Sustainability Risk*

The Sustainability Risk is described in the section 32.7 of the general part of the Issuing Document of the Fund. Investors are therefore invited to refer to the aforementioned section of the Issuing Document.

Given CLO Credit Fund's investment strategy and risk profile, the likely impact of Sustainability Risks on CLO Credit Fund's returns is expected to be medium.

### 22.3 **Risks Relating to the Sub-fund's Business**

#### 22.3.1 *Market Risk*

Prevailing economic conditions, market conditions, investor sentiment and CLO Issuers' sentiment will all have a substantial impact on the Sub-fund's ability to acquire Investments, the availability of Investments, the value of any Investments, and the opportunity for disposing of Investments. Because such Investments may be made over a substantial period of time, the Sub-fund faces a risk of changes in interest rates and other adverse changes in market conditions.

#### 22.3.2 *Counterparty Risk*

The transactions relating to the Investments may involve the entry into by the Sub-fund of various derivative transactions (such as, without limitation, interest rate swaps, etc.), with a limited number of hedge counterparties. Pursuant to such contracts, the counterparties agree to make payments to the Sub-fund under certain circumstances. The Sub-fund's income will be dependent on payments received in connection with such agreements.

The Sub-fund will be exposed to the credit risk of the relevant hedge counterparty with respect of any such payments. The Sub-fund will rely substantially on the creditworthiness of these hedge counterparties with respect to the performance of their obligations under the relevant agreements and the bankruptcy or any other form of insolvency of such hedge counterparties will have a material adverse effect on the Sub-fund.

The hedge counterparties may also be allowed to transfer their rights, obligations and/or interests under the relevant agreements which may result in a concentration of credit risk in relation to such transferee. They may also be entitled to terminate such agreements before their terms which may be prejudicial to the Sub-fund.

In addition, CLO investments may involve some exposure to the credit risk of an institution selling assets into the CLO.

#### 22.3.3 *Currency Risk*

Unitholders may be subject to fluctuations in currency exchange rates between the currency of their Class of Units and their respective national currencies.

Fluctuations in the currency markets may reduce the value in the relevant currency of the Investment as well as of income payable in local currency.

#### 22.3.4 *Hedging*

The Sub-fund may (but will not be required to) seek to mitigate risks by entering into hedging arrangements with third parties. The Sub-fund may choose to hedge particular risks but not others. While such transactions may reduce certain risks, such transactions themselves entail certain other risks, including potential tax implications. Thus, while the Sub-fund may benefit from the use of hedging techniques (if any such techniques are employed), unanticipated changes may result in a poorer overall performance for the Sub-fund than if it had not entered into any such transactions; in addition, entering into hedging transactions always results in a cost to be paid to the hedging counterparty. In the event of an imperfect correlation between a hedged position and the portfolio position that is intended to be protected, the desired protection will not be obtained and the Sub-fund may be exposed to risk of loss. Finally, the counterparty may be unable to pay the amount due on such instrument.

If a Class of Units is denominated in a currency other than the Base Currency, the AIFM is authorised to cause the Sub-fund to enter into currency hedge agreements to hedge currency risk for such class against the Base Currency. The hedging costs and expenses would be paid out of the Sub-fund's assets and will be solely born by the relevant non-Base Currency Class of Units. Investors in such Class of Units may be exposed to the gains/loss on and the costs of the currency forward contracts. This hedging policy may substantially limit holders of Class A-3 EUR Hedged (Capitalisation) Units, Class A-5 GBP Hedged (Capitalisation) Units, Class A-7 CHF Hedged (Capitalisation) Units, Class B-3 EUR Hedged (Distribution) Units, Class B-5 GBP Hedged (Distribution) Units and Class B-7 CHF Hedged (Distribution) Units from benefiting if the designated currency of such Class falls against the Base Currency.

#### 22.3.5 *Operating Deficits*

The expenses of operating the Sub-fund (including the fees payable to the Management Company, the AIFM and other service providers) may exceed the Sub-fund's income,

thereby requiring that the difference be paid out of the Sub-fund's capital, reducing the value of the Sub-fund's Investments and potential for profitability.

#### **22.3.6**    *Litigation*

Any dispute involving the Sub-fund or the assets of the Sub-fund could result in litigation or other legal proceedings which could have a material impact on the operations or the assets of the Sub-fund.

### **22.4**       **Risks Relating to Economic Conditions and Regulatory Environment**

#### **22.4.1**    *General*

Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and other factors, could substantially and adversely affect the Sub-fund's prospects and, in particular, the Sub-fund's ability to acquire and dispose of Investments.

#### **22.4.2**    *Regulatory Risk*

The operation of the Sub-fund and the consequences of an investment in the Sub-fund are substantially affected by legal, tax and regulatory requirements, including requirements imposed by the securities laws and companies laws in various jurisdictions, including Luxembourg, as well as all laws and regulations applicable to securitisation schemes and/or to the underlying assets (including, without being limited to, the Risk Retention Requirements). No assurance can be given that future legislation, administrative rulings or court decisions will not adversely affect the operation of the Sub-fund or an investment by a Unitholder. The regulation of derivatives transactions and Sub-funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Sub-fund could be substantial and adverse.

#### **22.4.3**    *Market Disruption Risk*

Instability in various parts of the world and the increasing prevalence of terrorist attacks throughout the world could have significant effects on the global economy. The Directors and the AIFM cannot predict the likelihood of these types of events occurring in the future or how such events may affect the Sub-fund.

#### **22.4.4**    *Systemic Risk*

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, monolines and exchanges, with which the Sub-fund interacts on a daily basis.

#### 22.4.5 *Current Market and Economic Conditions*

The Sub-fund and its ability to acquire and dispose of Investments may more generally be adversely affected by the recent deterioration in the financial markets and economic conditions in Europe and throughout the world. For example, the following factors could adversely affect the Sub-fund and its ability to acquire or dispose of Investments to a greater extent than normally anticipated: interest rate fluctuations; availability of credit and capital markets funding; increasing inflation (or deflation) rates; economic uncertainty; rating agency downgrades of European countries; Eurozone countries withdrawing from the Euro; rescheduling of sovereign debt; changes in laws and regulations (including laws and regulations relating to taxation); and national and international political circumstances.

### 22.5 **Risks Related to Unitholders and Distributions**

#### 22.5.1 *Recourse of Unitholders*

The Sub-fund is reserved to Well-Informed Investors who must be aware of the risks attaching to the investment in an undertaking for collective investment investing directly or indirectly in CLOs such as the Sub-fund, and accept that they will have recourse only to the Sub-fund's assets as these will exist at any time.

The Sub-fund's assets, including any Investments made by the Sub-fund, are available to satisfy all liabilities and other obligations of the Sub-fund. If the Sub-fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Sub-fund's assets generally and may not be limited to any particular asset, such as the asset representing the Investment giving rise to the liability.

#### 22.5.2 *Dilution from issues after the Initial Closing*

To the extent Subscription Amounts are accepted after the Initial Closing, Investors subscribing in the Sub-fund after the Initial Closing will participate in the existing Investments of the Sub-fund (if any), thereby diluting the interest of existing Unitholders. Although such subsequent Unitholders will contribute their Subscription Amount, there can be no assurance that this Subscription Amount will be invested in new Investments having expected returns similar to the existing Investments.

#### 22.5.3 *Distributions*

The capacity of the Sub-fund to pay dividends to Unitholders depends on payments it receives from its Investments. The Sub-fund's ability to make distributions to Investors will also be limited to the extent of sufficient funds remaining after payment by the Sub-fund of administrative and other fees and expenses to third parties.

**The investment risks set out in this Supplement do not purport to be exhaustive and Investors should be aware that an investment in the Sub-fund may be exposed to risks of an exceptional nature from time to time.**